PRISTINE.COM

Pristine.com Presents

Swing Trading Tactics

With

Oliver L. Velez

TOOLS AND TACTICS FOR THE MASTER DAY TRADER
Save 20% when you buy all 3
MICRO TRADING TACTICS
SWING TRADING
CORE TRADING TACTICS
OLIVER VELEZ

Founder of Pristine.com, and Author of the best selling book, Tools and Tactics for the Master Day Trader

Copyright 2001, Pristine Capital Holdings, Inc.

Table of Contents

Introduction

The 6 Major Time Frames

The 4 Trading Styles

Understanding Candlesticks

The Foundation

The Market's Basic Unit

The Only Way to Win or Lose

The 3 Primary Trends

Combining Building Blocks

Anatomy of Up & Down Trends

Dissecting the Major Up Trend

Dissecting the Major Down Trend

Pristine's Master Buy & Sell Set-ups

The Buy Set-up & Action

The Sell Set-up & Action

Pristine Chart Examples

Trading Disclaimer

It should not be assumed that the methods, techniques, or indicators presented in this book will be profitable or that they will not result in losses. Past results are not necessarily indicative of future results. Examples in this book are for educational purposes only. This is not a solicitation of any order to buy or sell.

"HYPOTHETICAL OR SIMULATED PERFORMANCE RESULTS HAVE CERTAIN INHERENT LIMITATIONS. UNLIKE AN ACTUAL PERFORMANCE RECORD, SIMULATED RESULTS DO NOT REPRESENT ACTUAL TRADING. ALSO, SINCE THE TRADES IN THIS BOOK HAVE NOT ACTUALLY BEEN EXECUTED, THE RESULTS WE STATE MAY HAVE UNDER OR OVER COMPENSATED FOR THE IMPACT, IF ANY, OF CERTAIN MARKET FACTORS, SUCH AS LACK OF LIQUIDITY. SIMULATED TRADING PROGRAMS IN GENERAL ARE ALSO SUBJECT TO THE FACT THAT THEY ARE DESIGNED WITH THE BENEFIT OF HINDSIGHT. **NO REPRESENTATION IS BEING MADE THAT ANY ACCOUNT WILL OR IS LIKELY TO ACHIEVE PROFITS OR LOSSES SIMILAR TO THOSE SHOWN.**"

The authors and publisher assume no responsibilities for actions taken by readers. The authors and publisher are not providing investment advice. The authors and publisher do not make any claims, promises, or guarantees that any suggestions, systems, trading strategies, or information will result in a profit, loss, or any other desired result. **All readers and seminar attendees assume all risk, including but not limited to the risk of trading losses**. Options involve risk and are not suitable for all investors. Prior to buying or selling an option, a person must receive a copy of Characteristics and Risks of Standardized Options (www.cboe.com).

Swing Trading can result in large losses and may not be an activity suitable for everyone.

Copyright © 2001 by Pristine Capital Holdings, Inc. All rights reserved. Printed in the U.S. of America. Except as permitted under the United States Copyright Act of 1976, no part of this publication may be reproduced or distributed in any form or by any means, or stored in a database or retrieval system, without prior written permission of the publisher.

Part I

Introduction

Charting Time Frames

There are **six major times frames** available to market players, all of which can be grouped into **three broader categories:**

Long term;

Intermediate term; and

Short term.

Charting Time Frames

Long term

Used for academic purposes and cyclical analysis

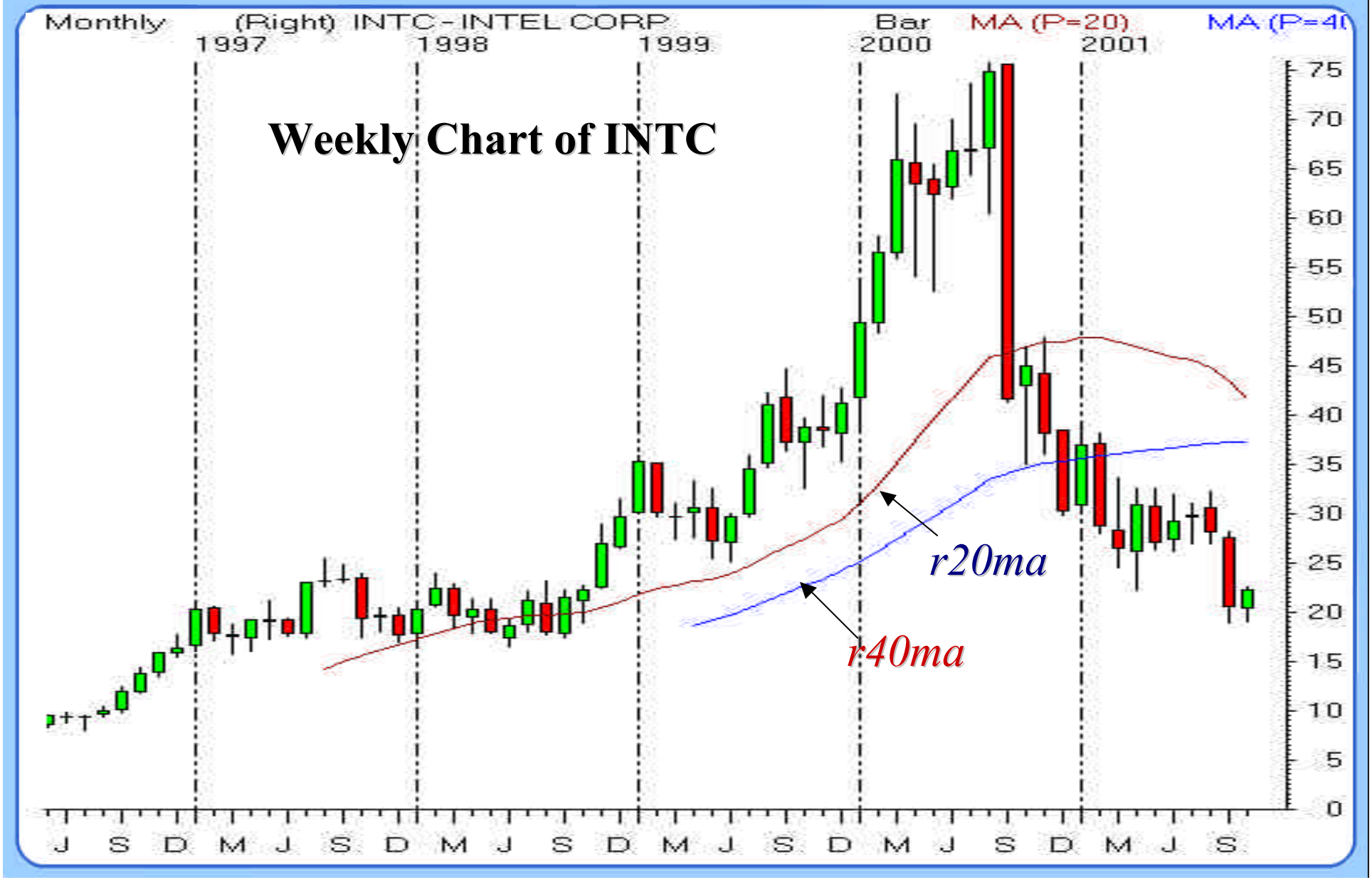
Yearly Charts (each bar = 240 trading days)

Used for academic studies and tests

Monthly Charts (each bar = 20 trading days)

Used by academics and long-term investors

Monthly Chart



Charting Time Frames

Intermediate term

Used for swing trading & core trading

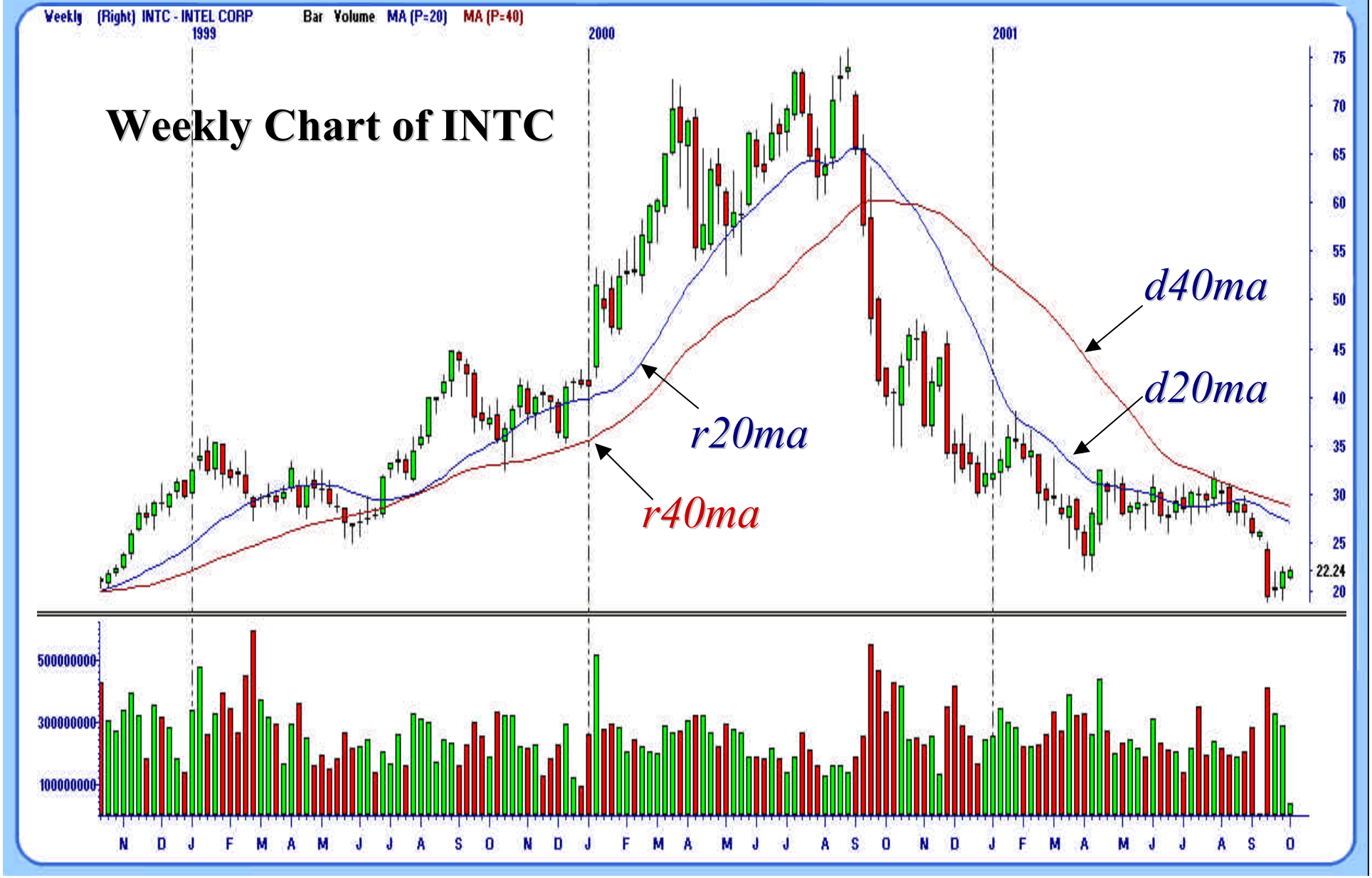
Weekly Charts (each bar = 5 trading days)

Visited occasionally by swing traders and also used by some long-term investors. We encourage our traders to visit weekly charts once per week

Daily Charts (each bar = 1 full trading day)

This is the domain of the swing trader. It is where the swing trader will spend 90% of his time and get nearly 95% of his entry and exit signals

Weekly Chart



Daily Chart

Daily (Right) INTC - INTEL CORP Bar Volume MA (P=20) MA (P=40) CCI(P=5)
32
30
28
26
24
22
20
d40ma
d20ma
Daily Chart of INTC
150000000
100000000
50000000
0
100
0
-100
May
Jun
Jul
Aug
Sep
Oct

Charting Time Frames

Short term

Used for Micro-Trading

Hourly Charts (each bar = 60 minutes)

Visited by day traders at times to eliminate noise and to gain a clearer perspective of the overall trend. A great time frame for 2-day plays

Intra-day (15- & 5-minute trading bars)

This is where the day trader and the scalper live their entire lives. Nearly all entry and exit points are derived in these time frames

Hourly Chart

5- & 15-Min Charts

Combining Time Frames

Pristine Tip

For our purposes, there are two types of trading: **Wealth Trading** and **Income Trading**. The wealth trader, while making occasional visits to monthly charts, will use the weekly and daily charts for all of his trading signals. The income trader, while occasionally visiting the daily chart, will use the 2, 5, and 15-min time frames for most of his trading signals. Note that there is always an effort to combine two or more times frames. The market player who uses more than one time frame in his analysis will experience a higher degree of trading accuracy. Remember this, as it is the most important key to understanding why nearly perfect setups in one time frame can and do fail at times.

Trading Styles

There are **four major styles** of trading available to market players, all of which can be grouped into **two categories**:

Wealth Building Style

Income Producing Style

Trading Styles

Wealth Building

1. Core Trading (weeks to months). This wealth-building style of trading attempts to capture major trends in the market and/or underlying stock. Most traders will use this style for longer term accounts such as IRAs, KEOGHs and other less time sensitive accounts. **Weekly charts are used for Core Trading.**

2. Swing Trading (2 to 10 days). This wealth-building style of trading is designed to capture short-term swings in an on-going trend, while side stepping the brief countertrend moves. It attempts to take advantage of a very overlooked niche, one that is too short for large institutions and too long for day traders. **Daily charts are used for Swing Trading.**

Note: Pristine's trading philosophy calls for having at least one of the two wealth-building trades always at work. Some of the country's top traders have amassed very large sums of money utilizing one or both of these styles in their trading programs.

Trading Styles

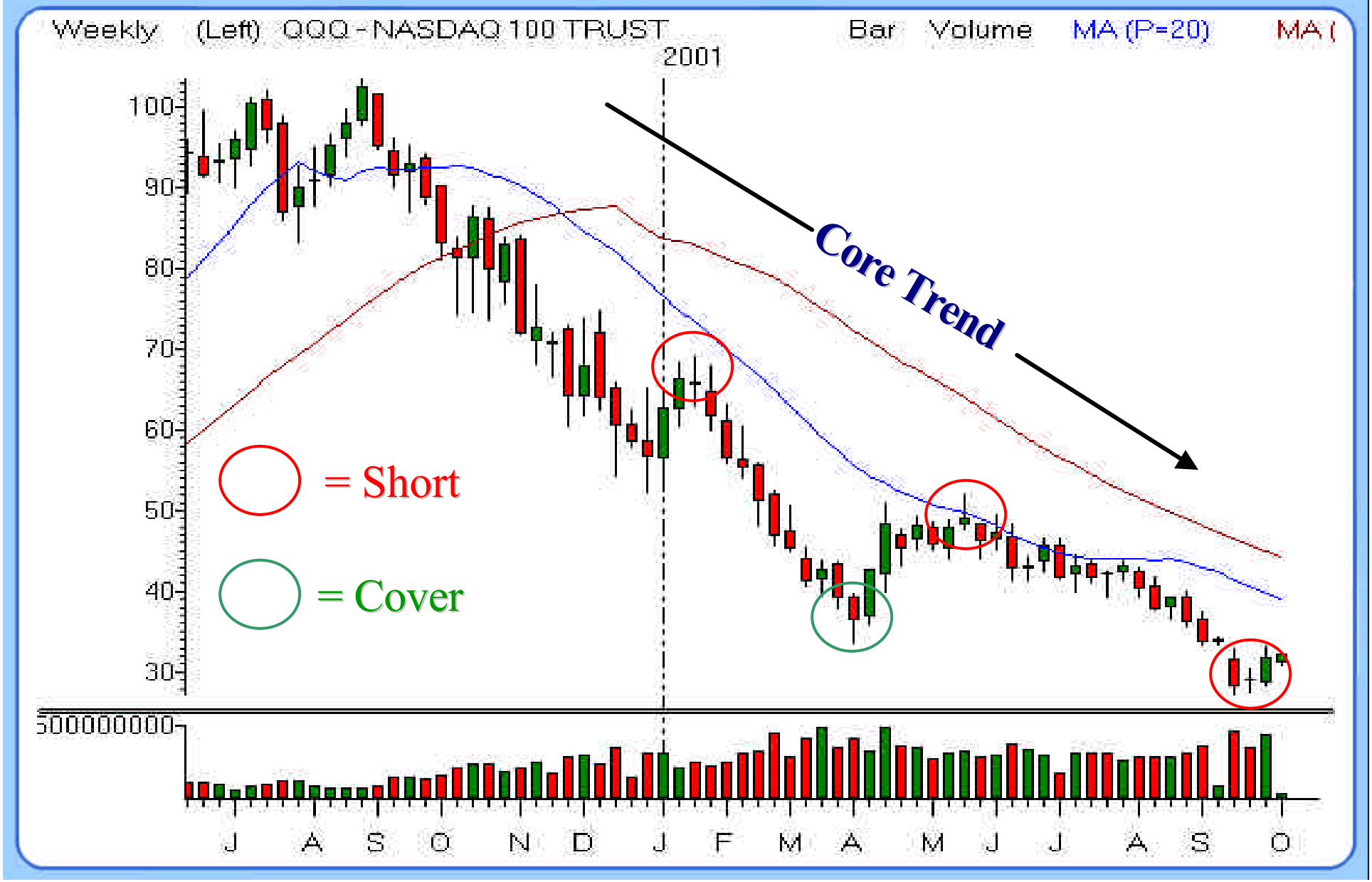
Income Producing

1. Guerilla Trading (1 to 2 days). This income producing style utilizes a sniper's hit and run approach. It looks to buy a stock on Tuesday, for instance, and sell it on Wednesday. Conversely, it calls for shorting a stock on one day, only to cover it the next day. **Daily and Hourly charts are used for Guerilla Trading.**

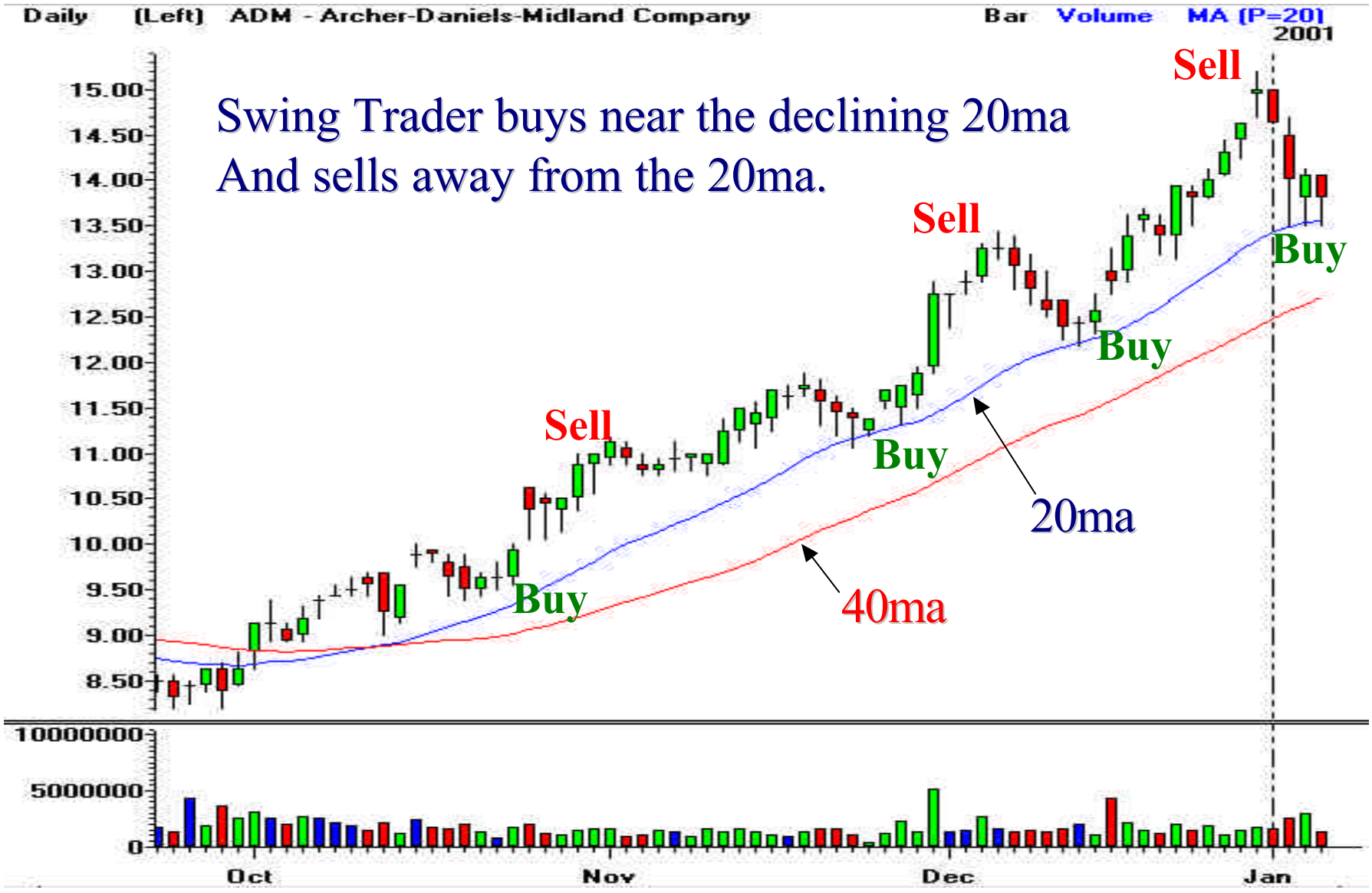
2. Micro-Trading (seconds to hours). This income producing style is what most people refer to as day trading. Some refer to it as scalping, and it serves as the foundation for anyone who wants to make a living from the markets. **5- and 15-minute charts are used for Micro-trading.**

Note: Pristine's philosophy calls for specializing in both Guerilla and Micro Trading, and always having one or both of the styles at work. These are the styles on which most professional traders focus.

Core Trading Chart



Swing Trading Chart



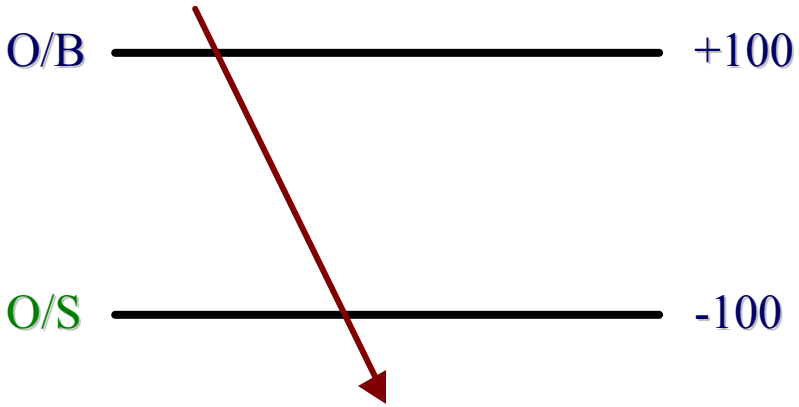
Tools of the Swing Trade

Charting Tools: *Daily charts displayed in Japanese Candlestick form.*

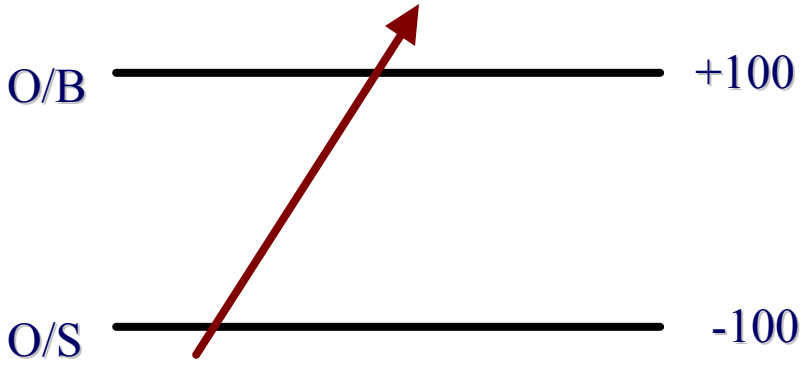
Technical Tools: *Color coded volume; 20 & 40 period 'simple' moving averages, and a 5 period Commodity Channel Index (CCI-5).*

Commodity Channel Index (CCI-5)

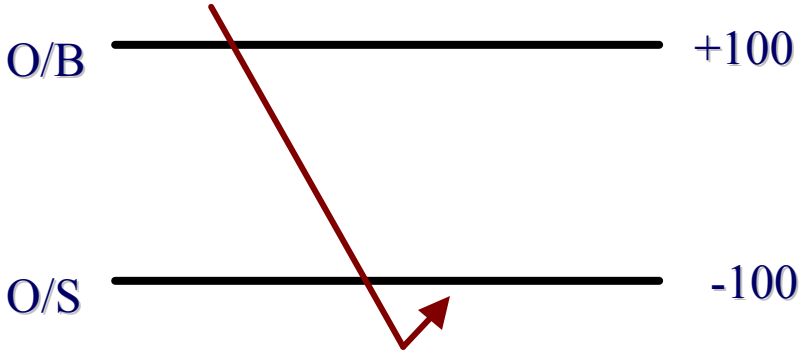
Anticipatory CCI(5) Buy Signal



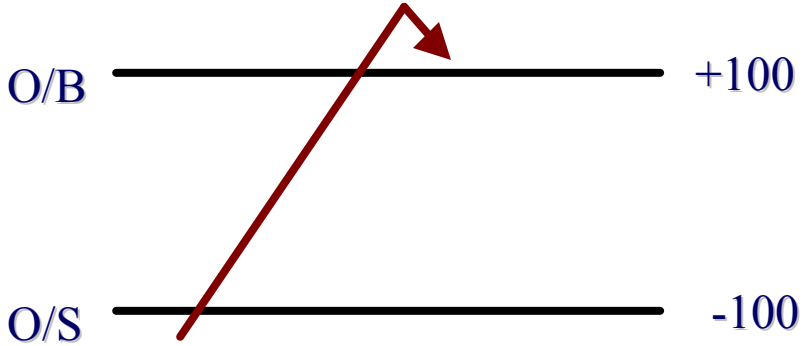
Anticipatory CCI(5) Sell Signal



Pristine CCI(5) Buy Signal



Pristine CCI(5) Sell Signal



Note: Pristine looks for buy signals in uptrends & sell signals in downtrends.

Daily Chart w/ Volume & CCI(5)

Understanding Candlesticks

Commentary

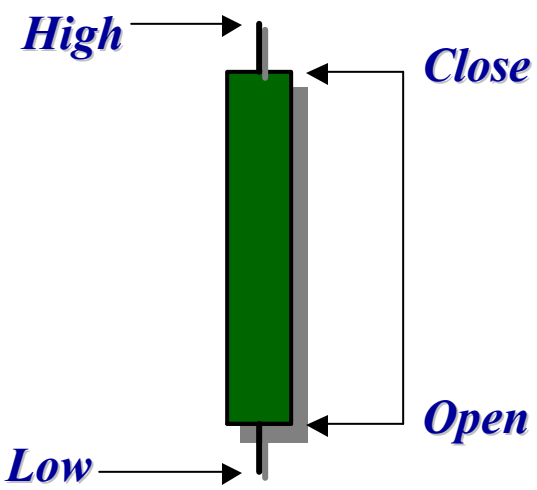
The main difference between Japanese Candlestick analysis and Western Bar chart analysis is that the ***Japanese place the highest importance on the relationship between the open and close of the same day*****, while the** ***Westerners place the importance on the close as it relates to the prior period's close*****.** **Note:** As long as the underlying stock closes higher than the prior day's close, Western thought says it's positive; however, according to the Japanese view, this is not necessarily the case. If on an up day, the stock closes below its open, the Japanese would regard it as negative. **Example:** Monday's close = $39. Tuesday's open = $40.75. Tuesday's close = $39.75. The Western view: "Positive action because the stock was up ¾ on the day." Japanese view: "Negative action because the stock closed sharply below its opening price of $40.75."

Important:

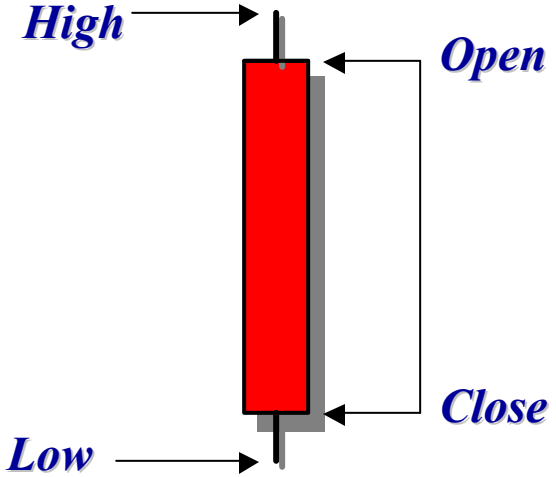
We regard the latter view as more accurate and useful for traders. This is why we exclusively use candlestick bar charts in our trading analysis in all time frames.

The Battle with Candles

Determining Who Won The Battle



Bulls Win



Bears Win

An Important Statistical Fact

Pristine Tip:

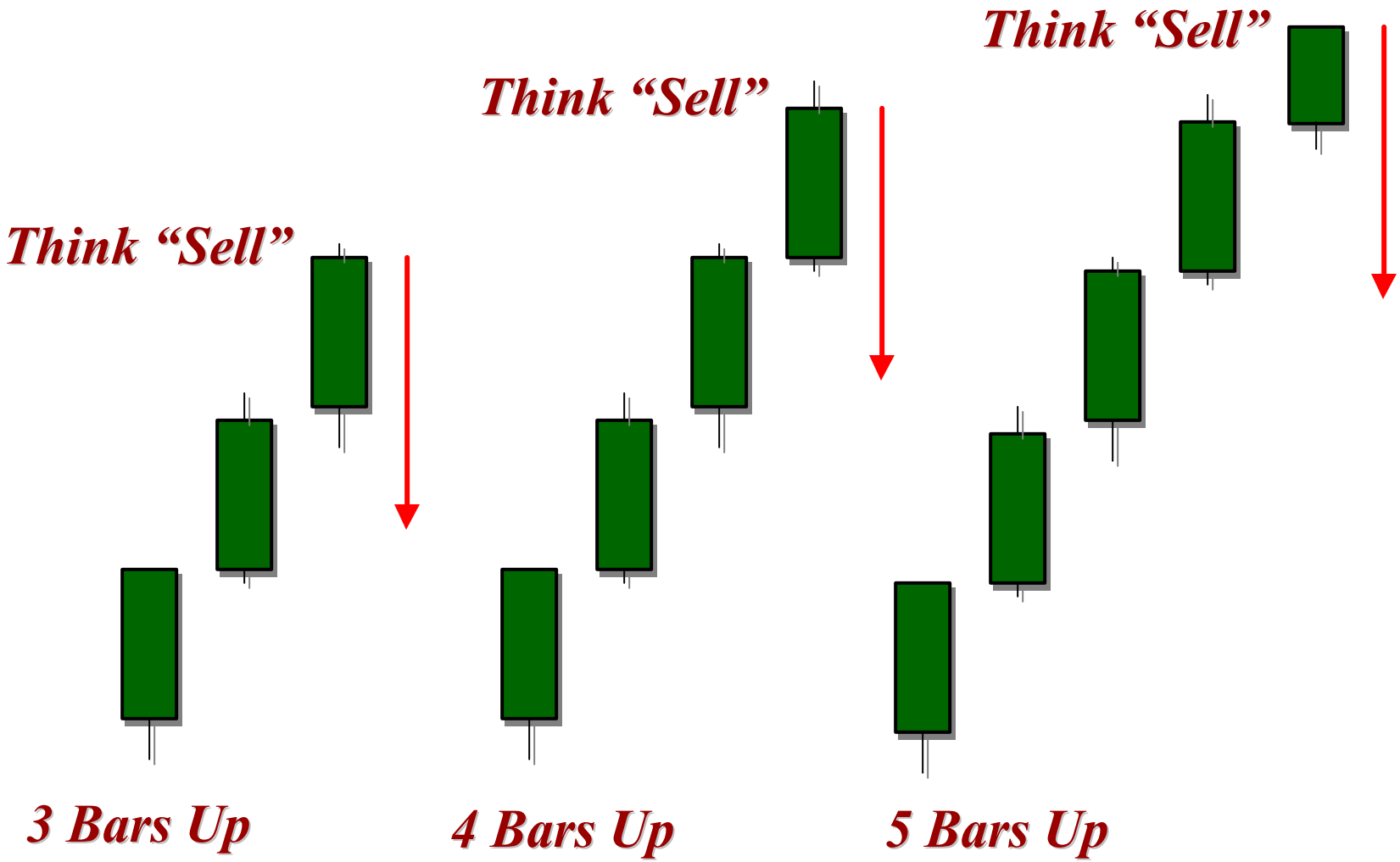
Bulls and Bears cannot consistently win more than 5 battles in a row. Each side typically surrenders to the other after 3 to 5 battles won.

However…

If the Bulls or Bears win significantly more than 5 battles in a row, *a catastrophic loss will be the price* paid for such an abnormal winning streak.

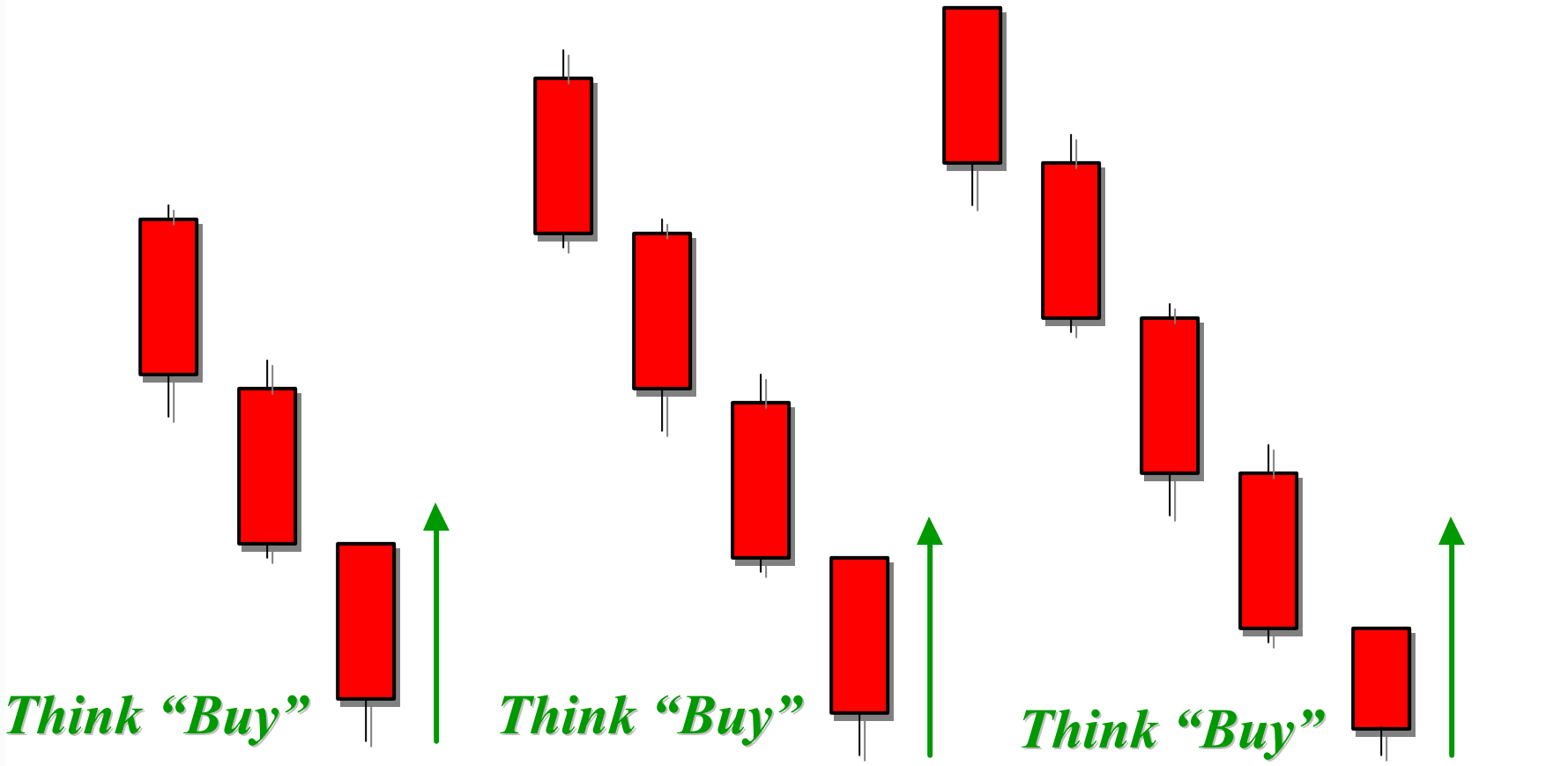
3 to 5 Bar Rallies – Think Sell

Pictures of Greed

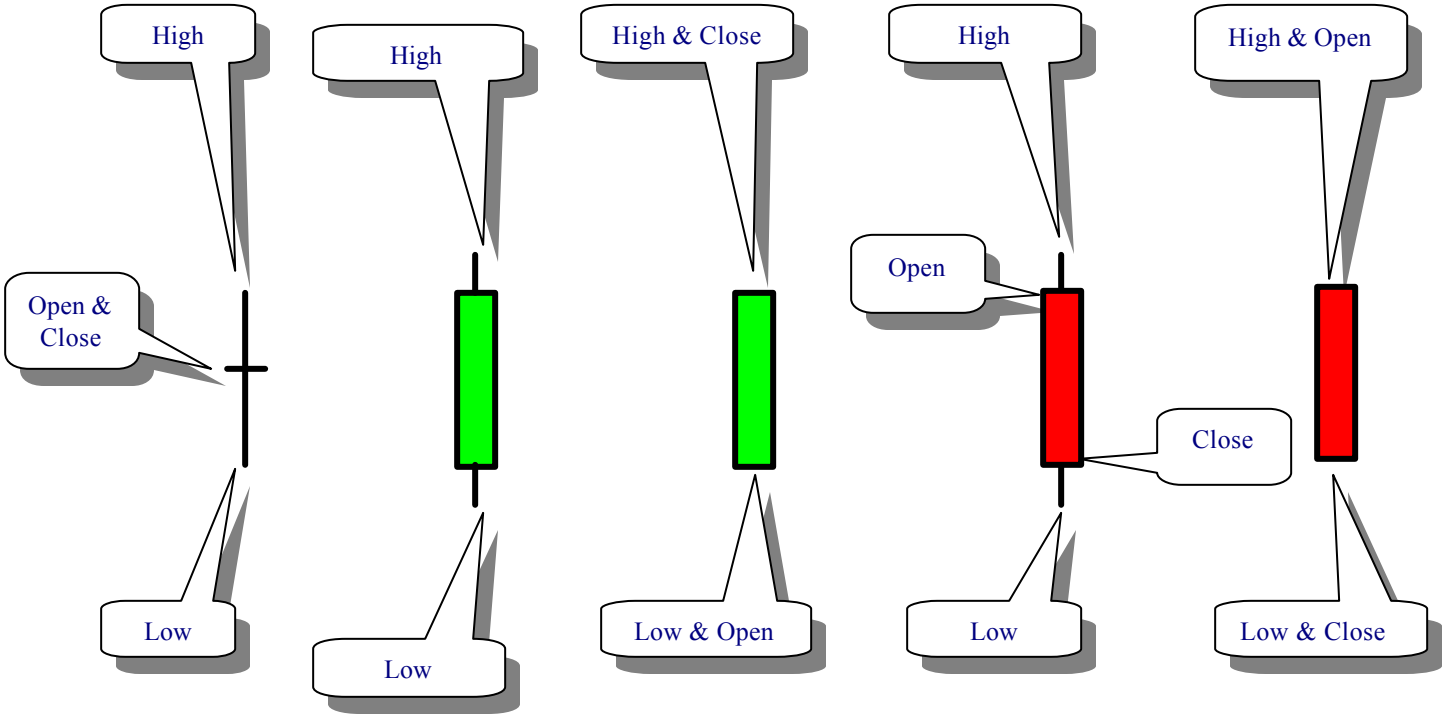


3 to 5 Bar Declines – Think Sell

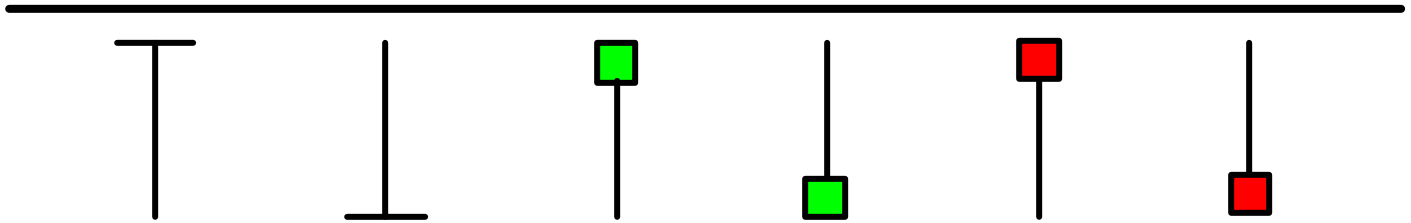
Pictures of Pain



Candlestick Summary



Reversal Bars



Part II

The Foundation

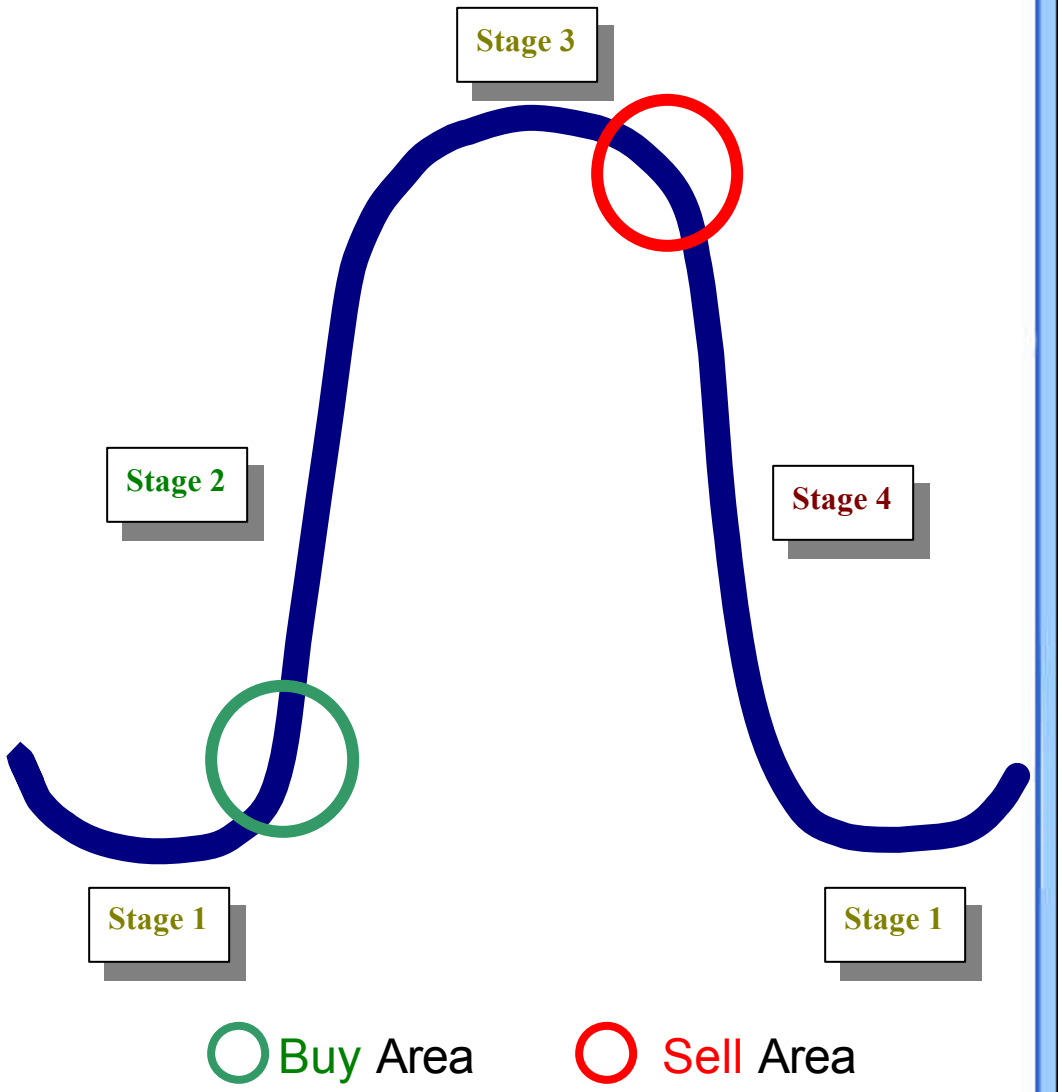
Introduction

In this section, we will reveal a few simple keys to understanding how the market works. The following concepts form the cornerstone of any and every sound trading technique or tactic. After gaining a clear understanding of these building blocks, the trader will never again find himself confused and not knowing what to do. In fact, once these powerful but simple concepts are mastered and understood, the trader will rarely find himself on the wrong side of the market. And over 65% of all trading losses can be attributed to being on the wrong side of the market.

The Market's Basic Unit (Atom) and its 4 Stages

Building Block One

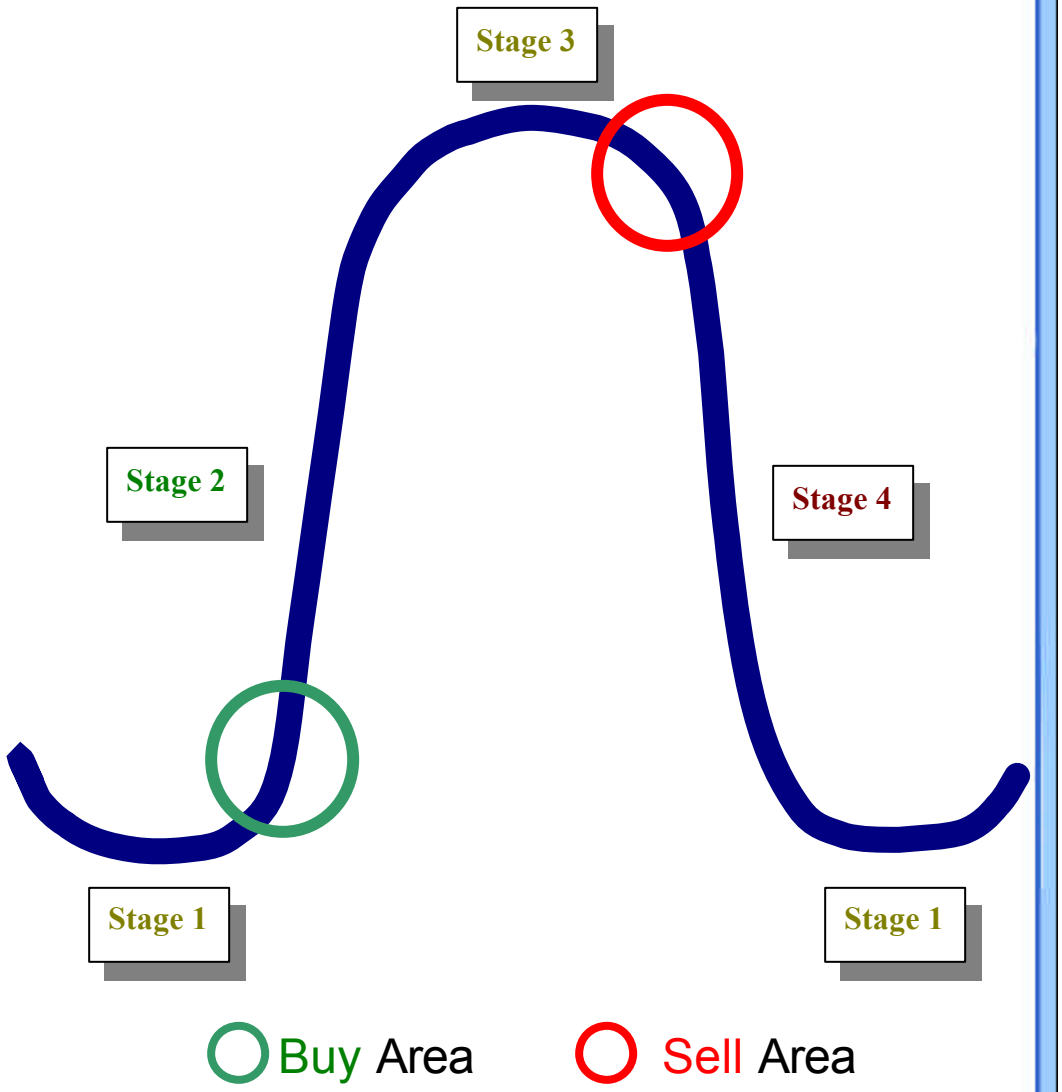
- This is the only movement a stock can make. There is no other motion possible.
- The entire life of a stock is comprised of this cycle repeated time and time again.
- This cycle forms the basis for predicting price movement.
- The Basic Unit helps the trader know the current status as well as what's next.
- The key to trading successfully is knowing where you are in the cycle.
- There is only one way to play this cycle successfully, and only one way to lose.



The Market's Basic Unit (Atom) and its 4 Stages

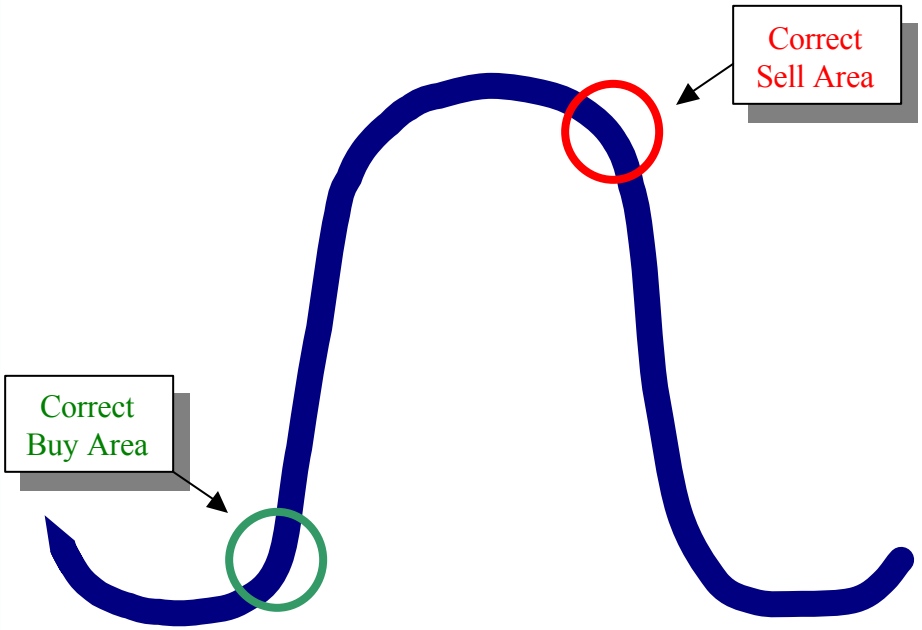
Building Block One

- In Stage 2, the Pristine Trader focuses on buying.
- In Stage 4, the Pristine Trader focuses on shorting.
- In Stage 1 & 3, the Pristine Trader can focus on both, buying and shorting.
- Stage 1 to Stage 1 can span over decades (macro), or minutes (micro).
- This Cycle is made up of 3 primary trends.



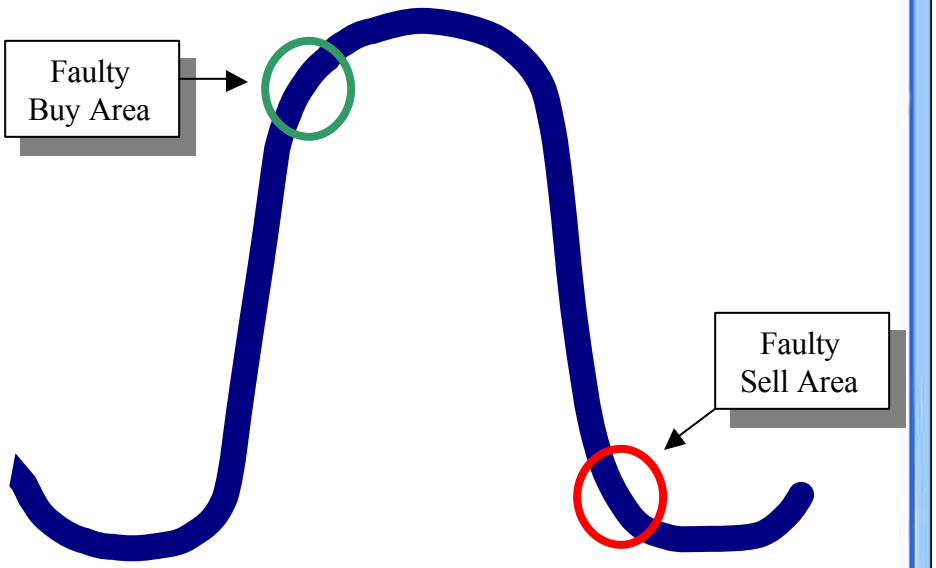
The Only Way To Win or Lose

The Only Way To Win



Traders who win consistently have simply learned to play the stock cycle this way

The Only Way To Lose



Traders who lose are unconsciously playing the stock cycle in this faulty manner

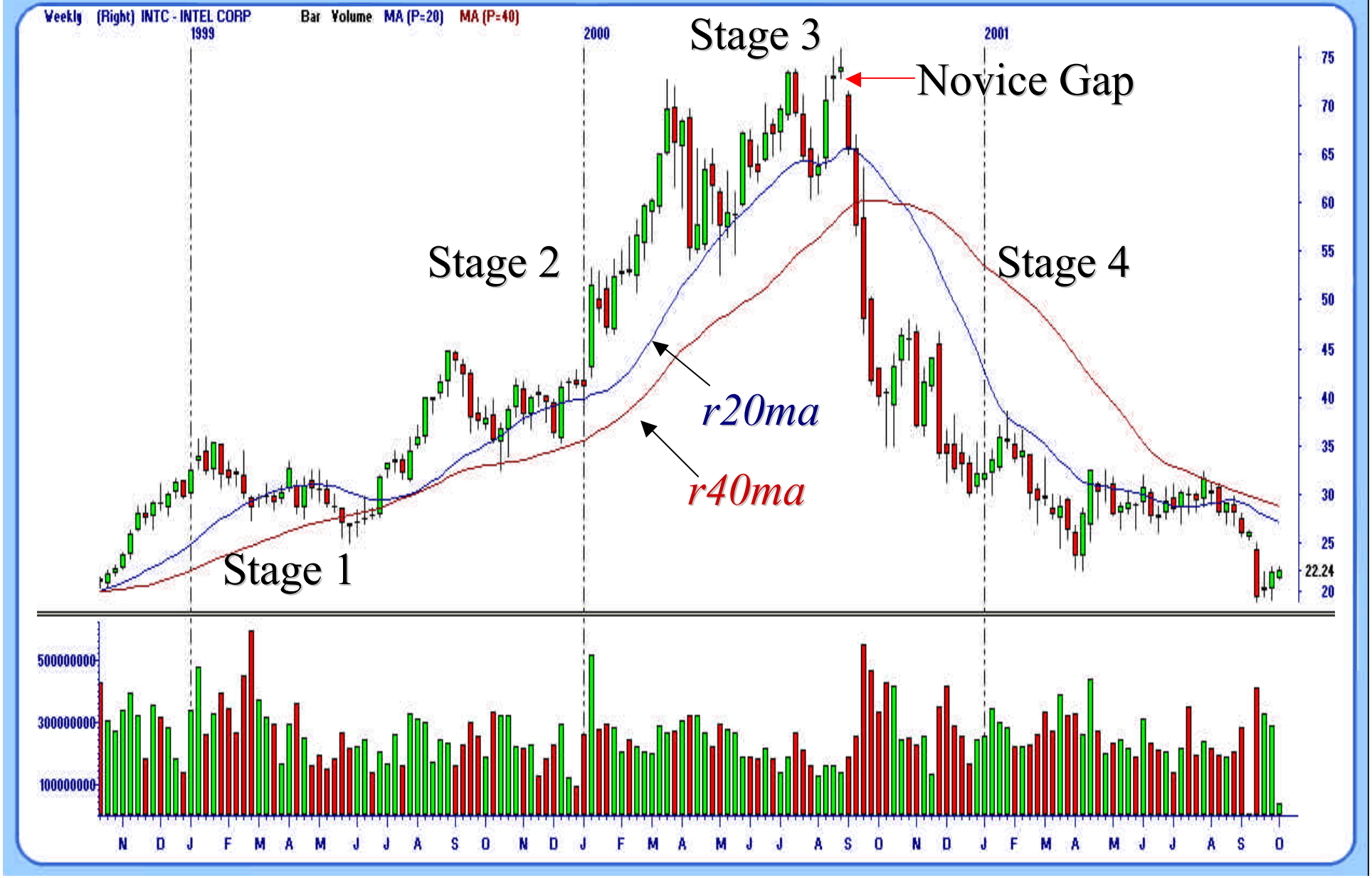
Full Macro Cycle (1)

T H E F U L L C Y C L E

Full Macro Cycle (2)

Full Macro Cycle (3)

Full Macro Cycle (4)



Important Points About the 4 Stages

- There is only one cycle in existence. Stocks and/or the market can do nothing else but comply with this cycle**.** ***No other movement or motion is possible***. This is the first major key to predicting stock market movement. Remember it!

- This cycle is made up of four (4) distinct stages, which in turn are driven by four (4) distinct emotions or psychological states. ***The 4 stages must, and always do, occur in the same sequence***. This is also an important key to price prediction.

- **Stage 1**, the bottoming period, is driven by **Uncertainty/Ambivalence**. This is the stage during which traders are unsure and/or indifferent. The interest level is low.

- **Stage 2**, the bullish period, is driven by **Greed**. This is the stage during which traders will make the most money. The mindset that dominates Stage 2 is one that wants to be in the game, at any cost. ***Most participants will make money during Stage 2, except those who come in too late and/or those who stay too long***.

Important Points About the 4 Stages

- **Stage 3**, the topping period, is also driven by **Uncertainty/Ambivalence**, just as in Stage 1. During this stage, sentiment begins to change, as ***a growing number of players begin to doubt the stock's (market's) ability to continue upward***. Other continue to think there will be no end to the bullishness.

- **Stage 4**, the bearish period, is driven entirely by **Fear**, which typically escalates or crescendos into a climax. Most players will lose money during this time. Those who have held on too long begin to exit in an attempt to keep some of their gains. Those who have entered late typically exit late; but they exit all at once, which in turn creates the climactic part of the decline. ***Once this last batch of traders exits, the worst is over***.

- **Important: There is only one way to lose. If a trader thoroughly understands this one way to lose, he will be more prone to avoid it.**

Miscellaneous Points About the 4 Stages

- A stock, or the market, can only be in one of the 4 stages at any given time.
- Identifying which stage a stock is in is vital to successful trading. It helps to reduce losing trades, and adds a quality to one's decision making that is very high.
- The astute trader will make most of his profits during Stage 2 and Stage 4.
- **Keep in mind that each stage calls for a specific trading strategy**.
- The successful market player has a collection of approaches for each stage.

Important Note: The successful trader has tools designed specifically for Stage 2, Stage 1 & 3, and Stage 4

Miscellaneous Points About the 4 Stages

- The 4 stages are divided by (or linked by) 4 transitional phases.
- Transitional phases tend to be the most difficult periods or points to trade. They are whippy, choppy and very volatile.
- All a trader needs to do is learn how to handle himself in each of the 4 stages.
- The highest degree of market mastery will be obtained when the trader learns how to handle the transitional phases (a, b, c & d), as well as the 4 stages.
- The entire 4-stage cycle is made up of 3 primary trends.

The 3 Primary Trends in Existence

Building Block Two

There are only three things a stock can do:

go up,
go down,

or

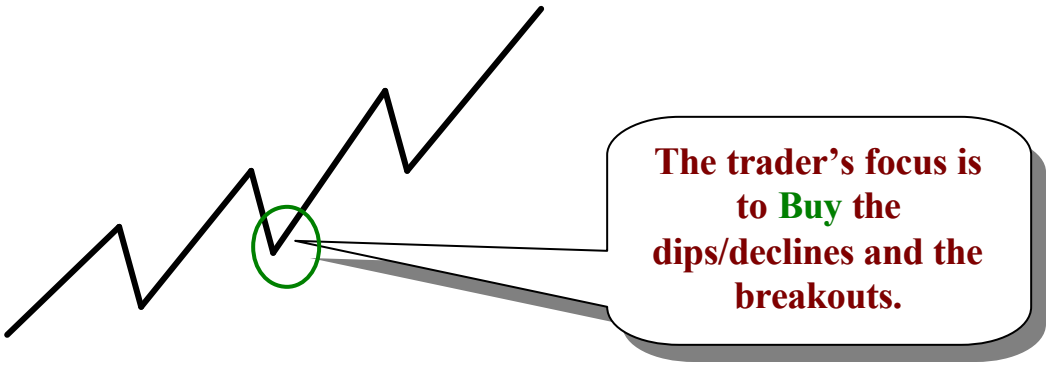
go sideways.

The 3 Primary Trends in Existence

Up Trend

Defined by a series of higher highs and higher lows

The Up trend is better known as Stage 2.



The 3 Primary Trends in Existence

Down Trend

Defined by a series of lower highs followed by lower lows

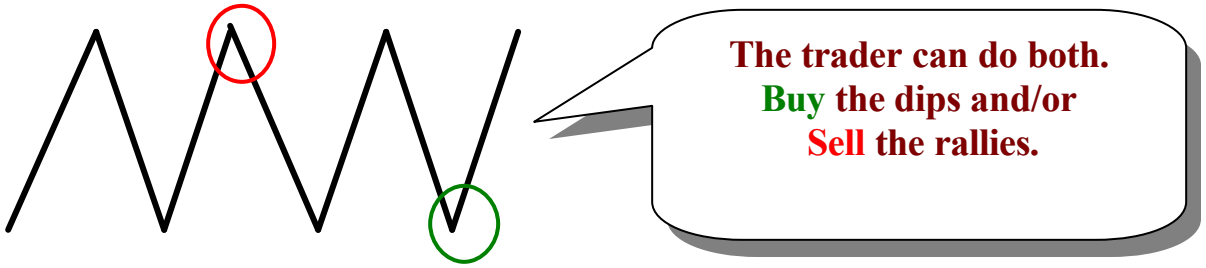
The Downtrend is better known as Stage 4.

The 3 Primary Trends in Existence

Sideways Trend

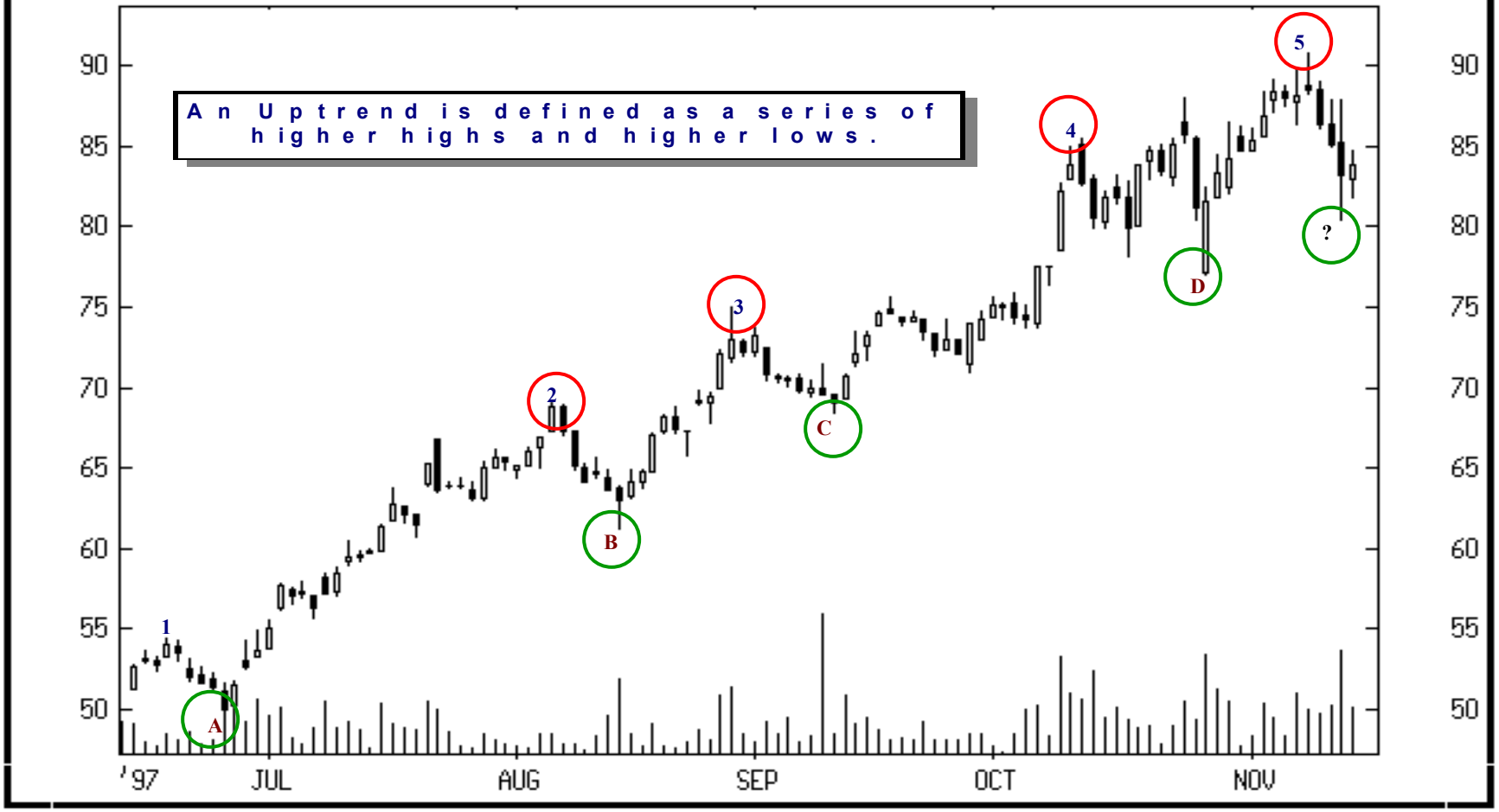
Defined by a series of "relatively" equal highs and lows.

The Sideways Trend is better known as Stage 1 & Stage 3.

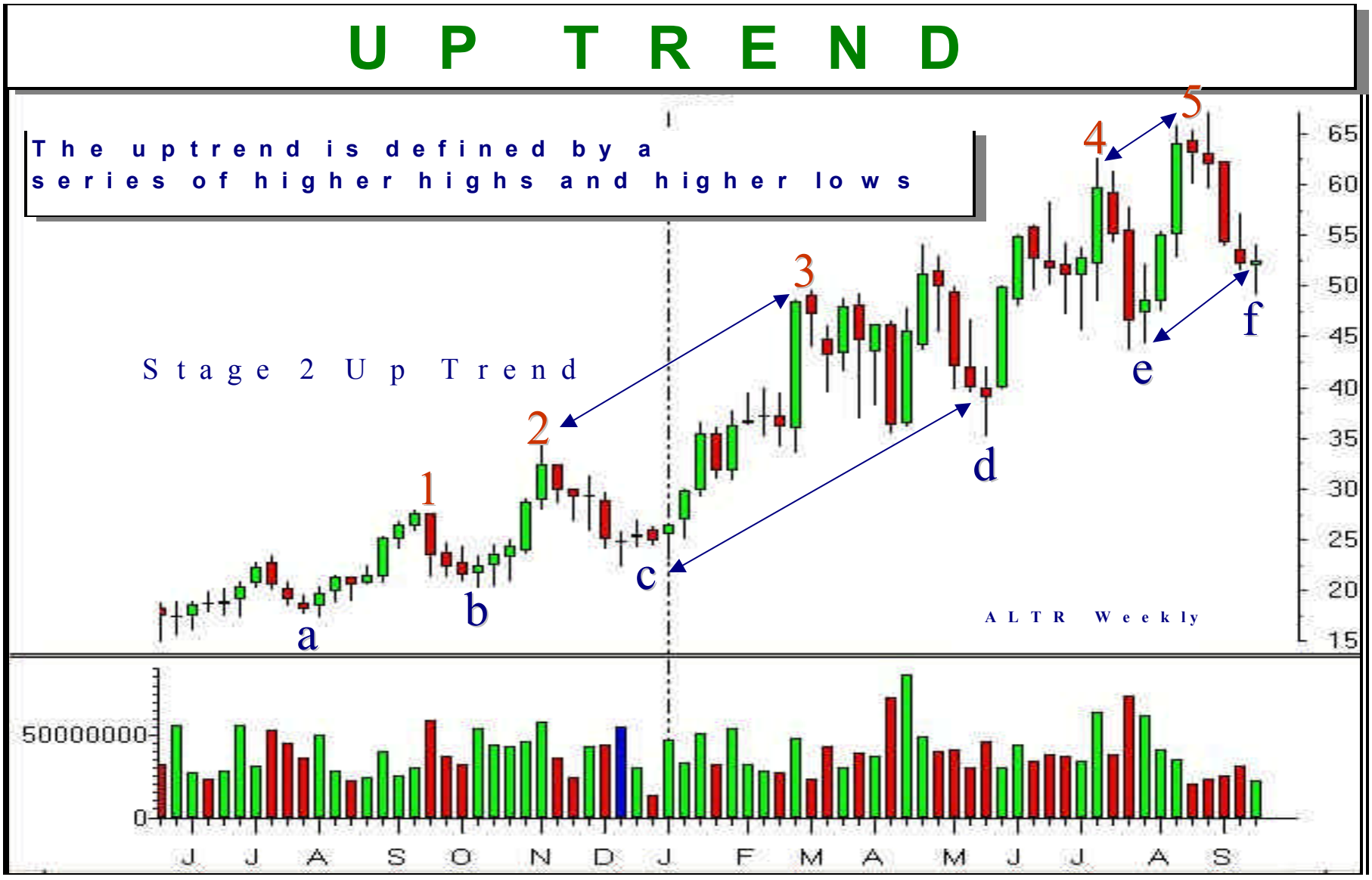


Example Uptrend (1)

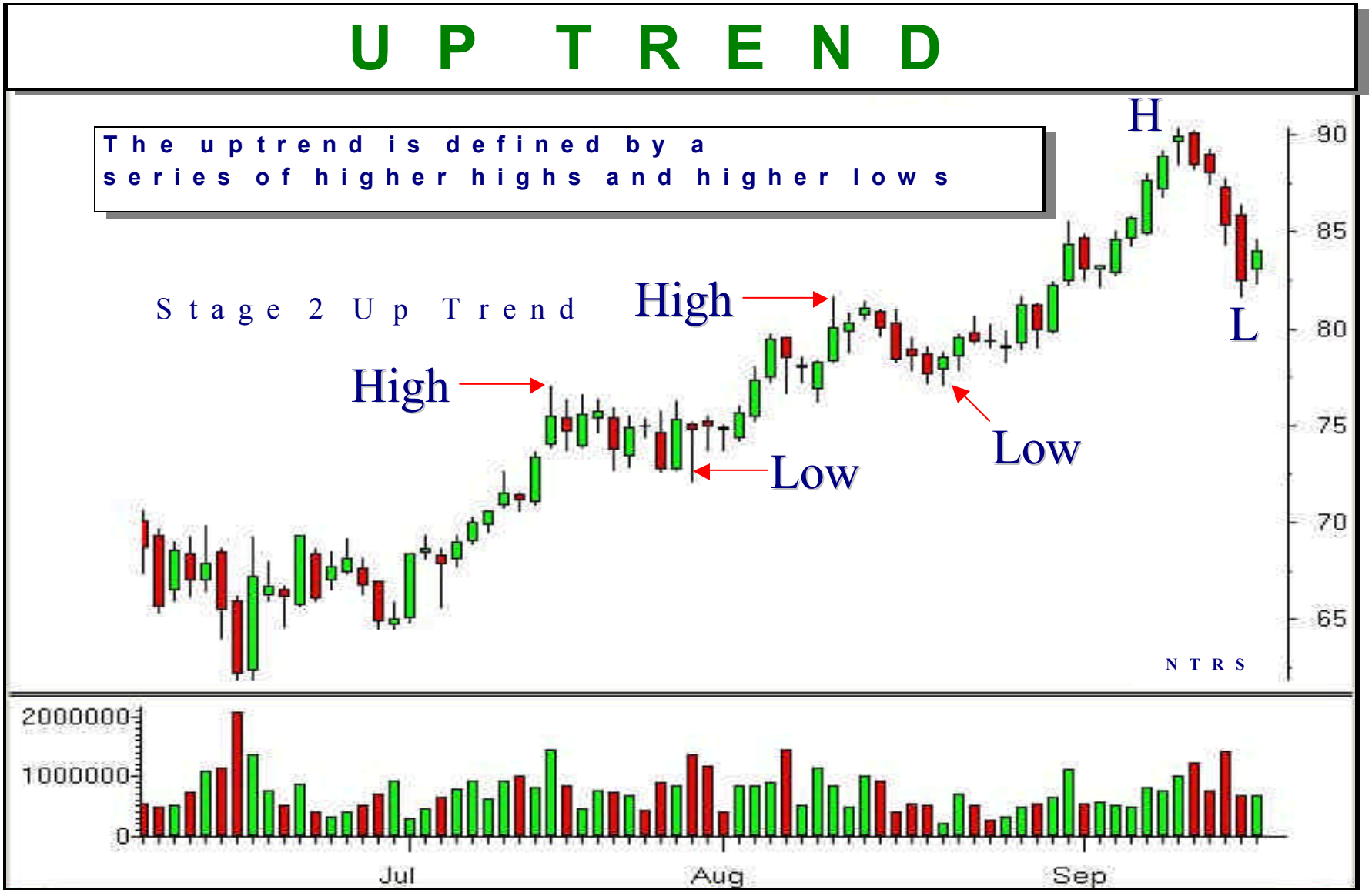
T H E U P T R E N D



Example Uptrend (2)



Example Uptrend (3)



Example Uptrend (4)

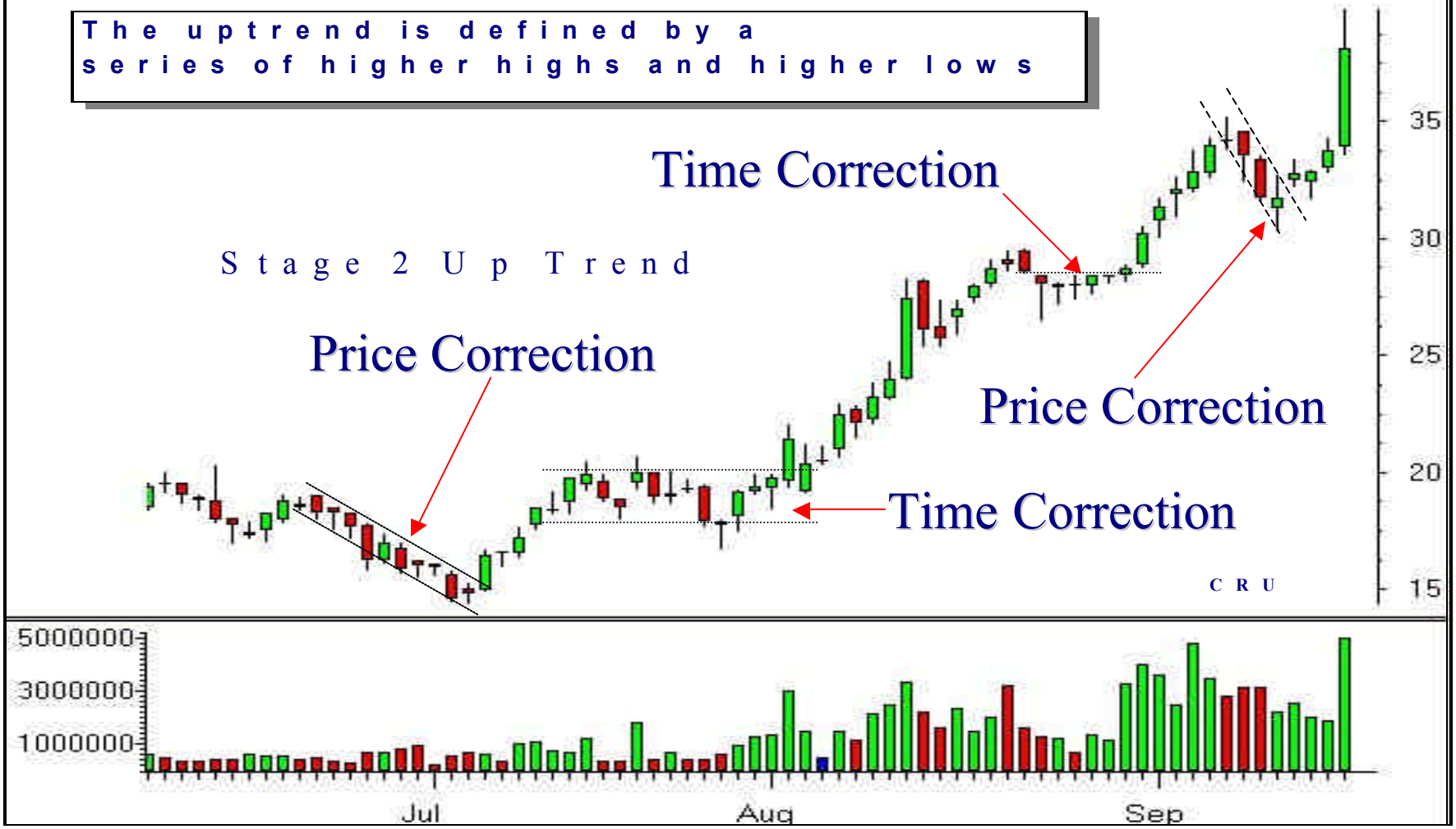
U P T R E N D

The uptrend is defined by a series of higher highs and higher lows

Example Uptrend (5)

U P T R E N D

The uptrend is defined by a series of higher highs and higher lows



Example Uptrend (6)

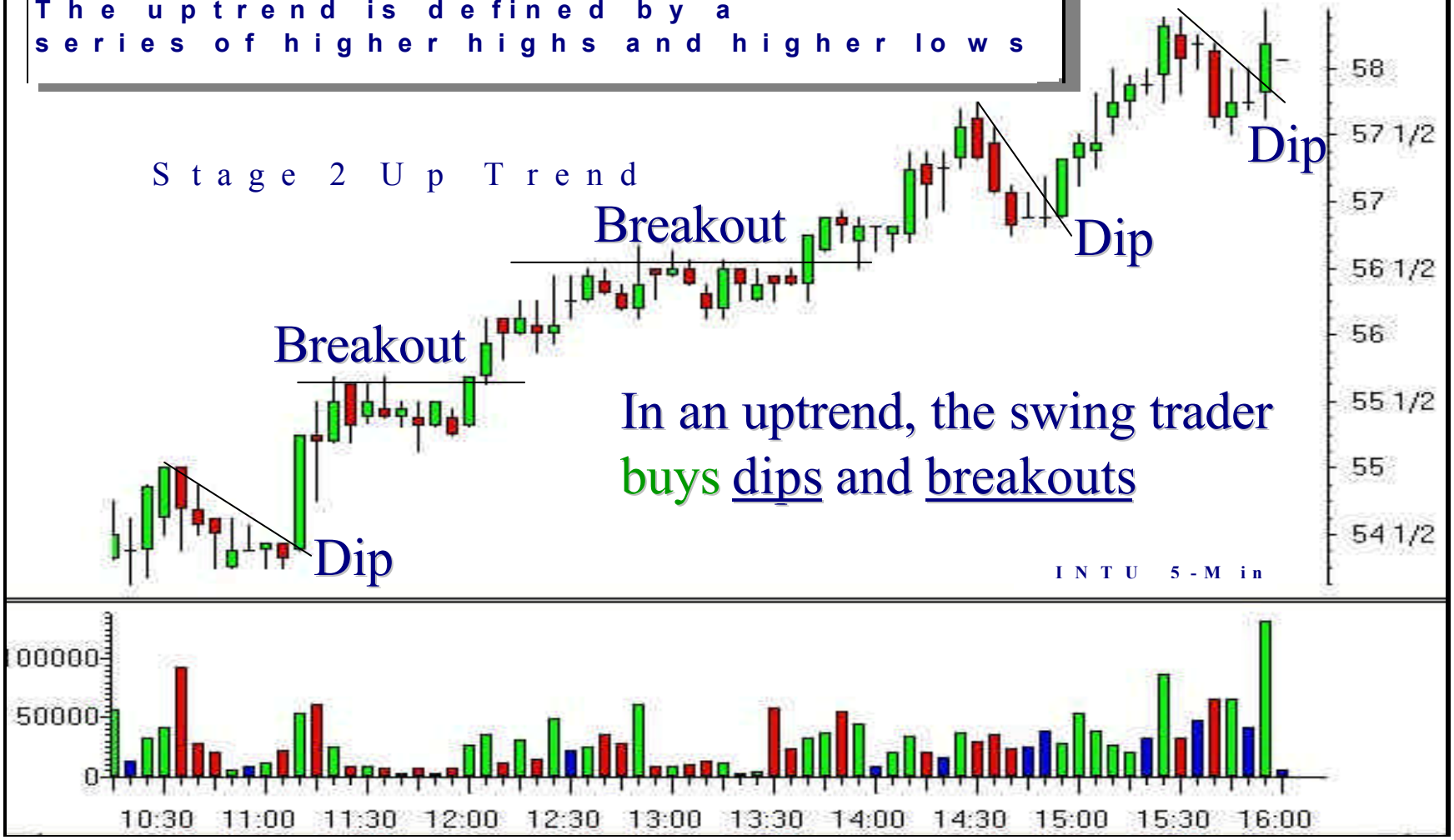
U P T R E N D

The uptrend is defined by a series of higher highs and higher lows

Example Uptrend (7)

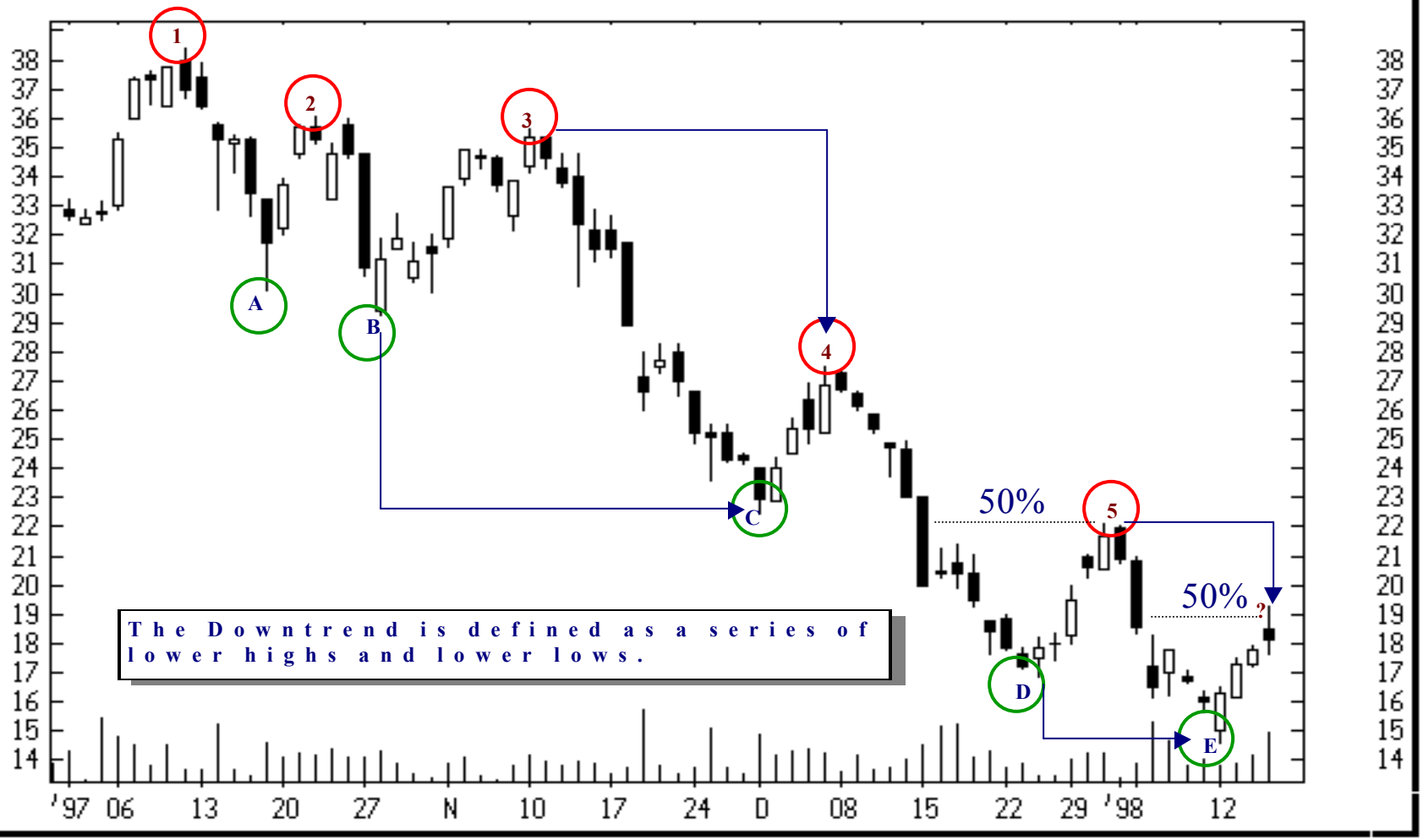
U P T R E N D

The uptrend is defined by a series of higher highs and higher lows

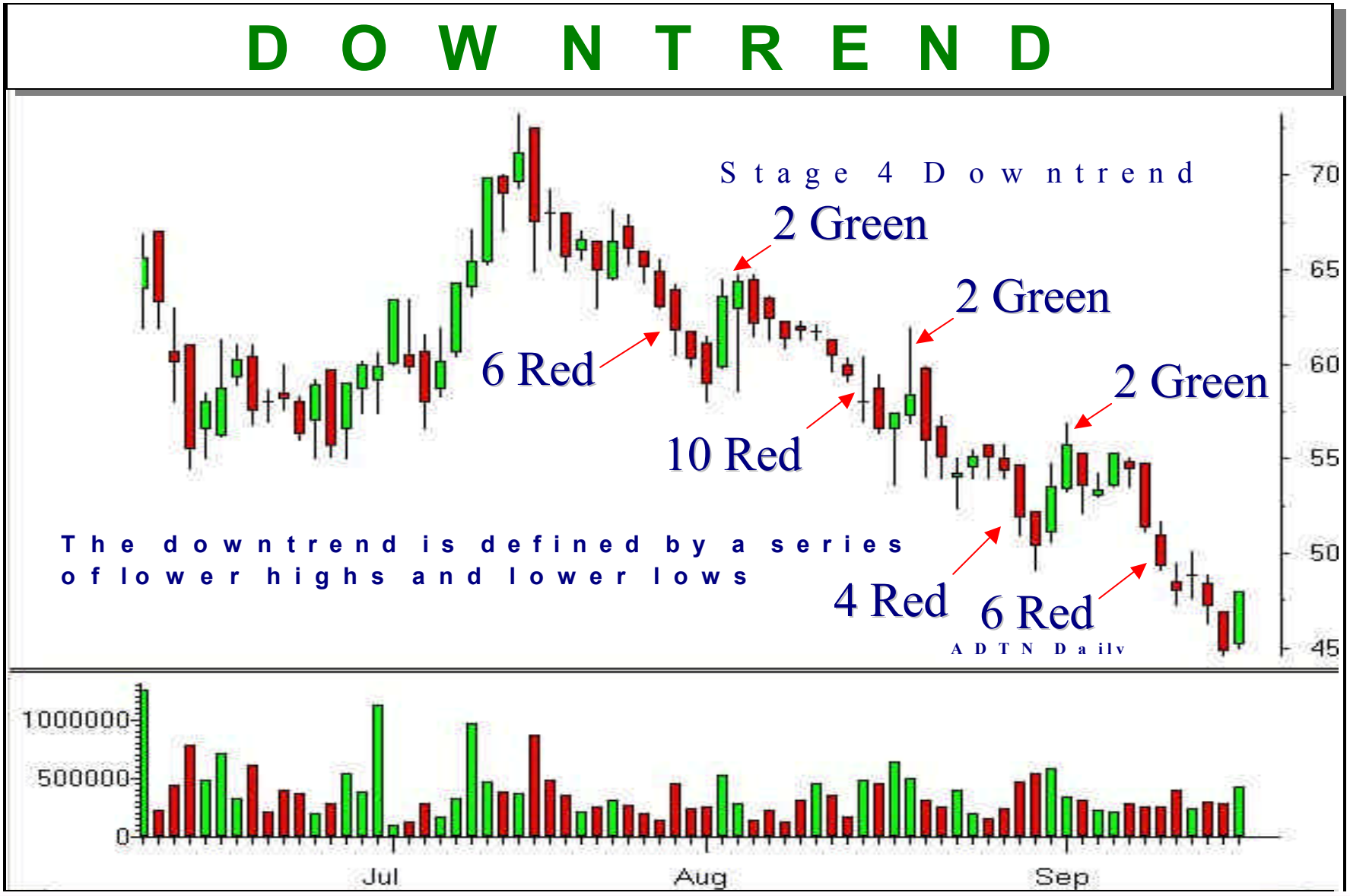


Example Downtrend (1)

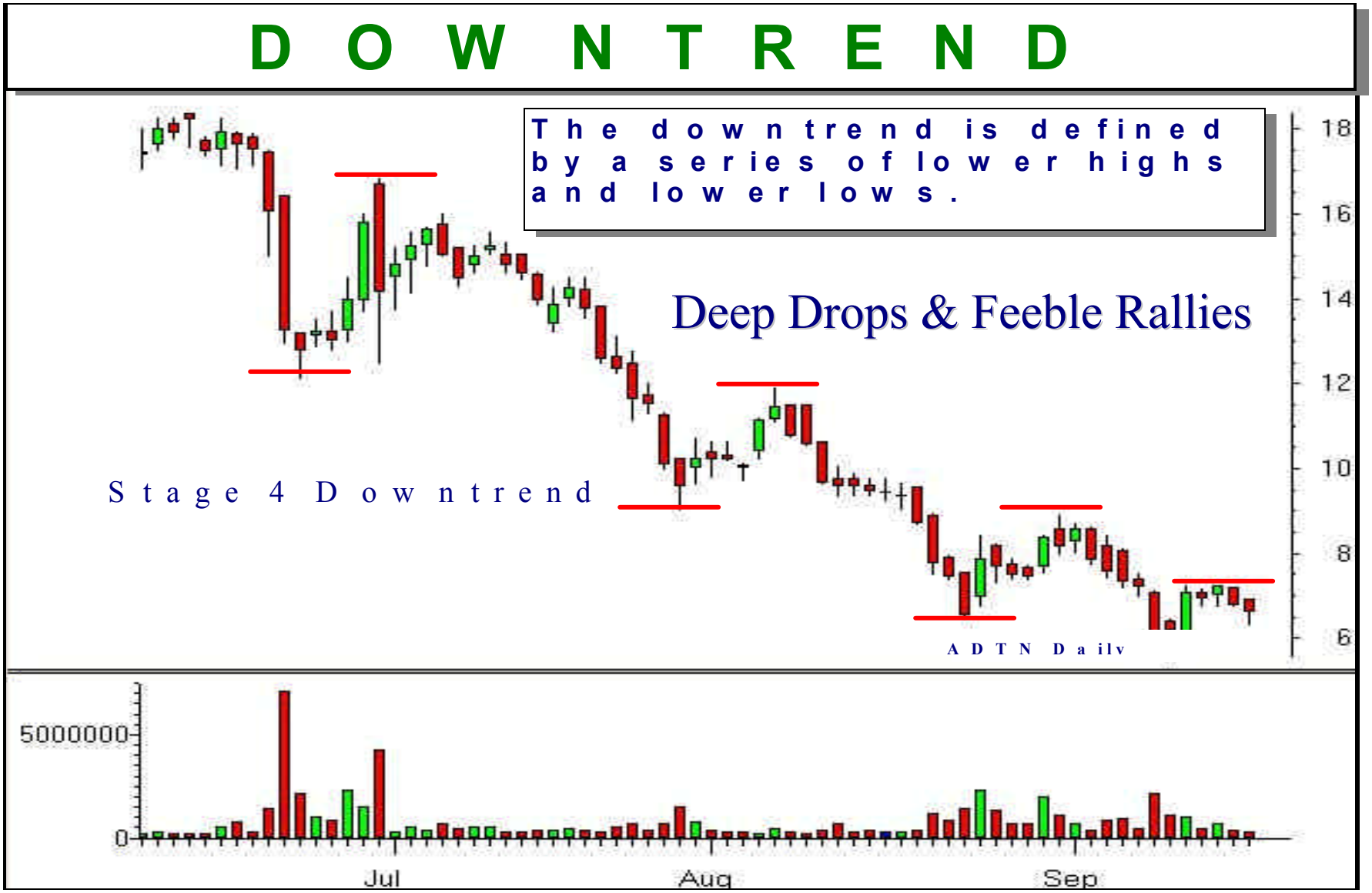
T H E D O W N T R E N D



Example Downtrend (2)

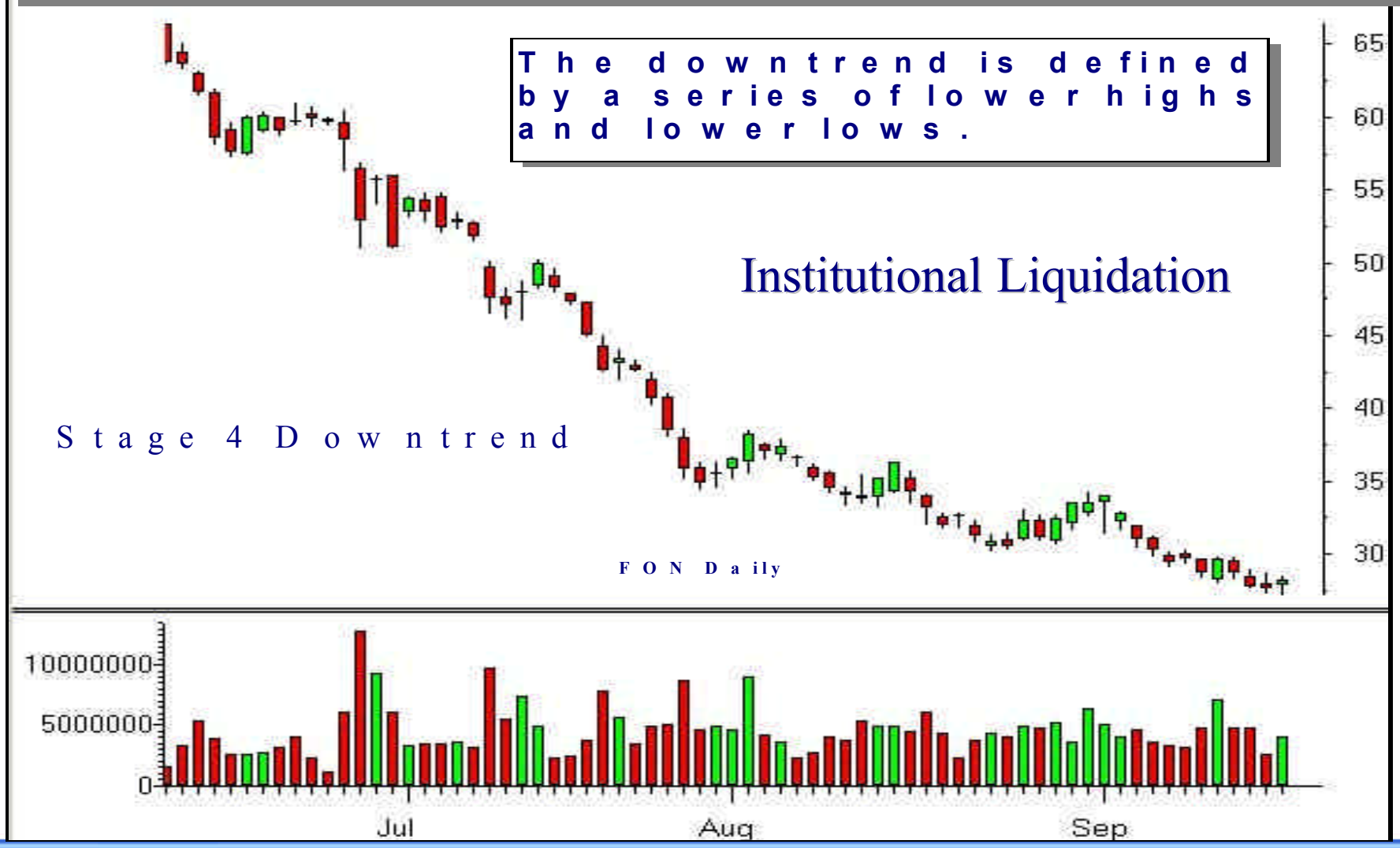


Example Downtrend (3)



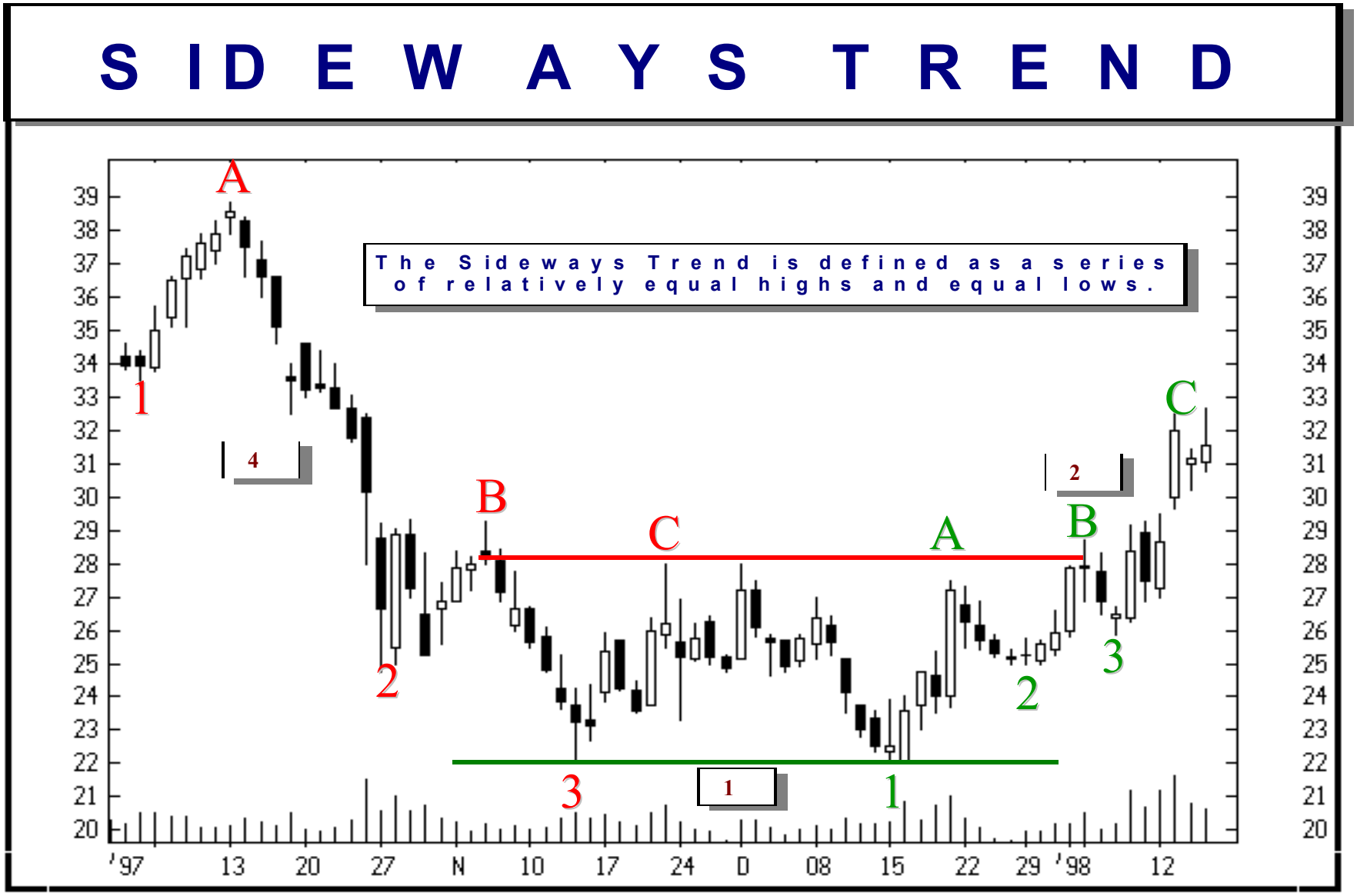
Example Downtrend (4)

D O W N T R E N D



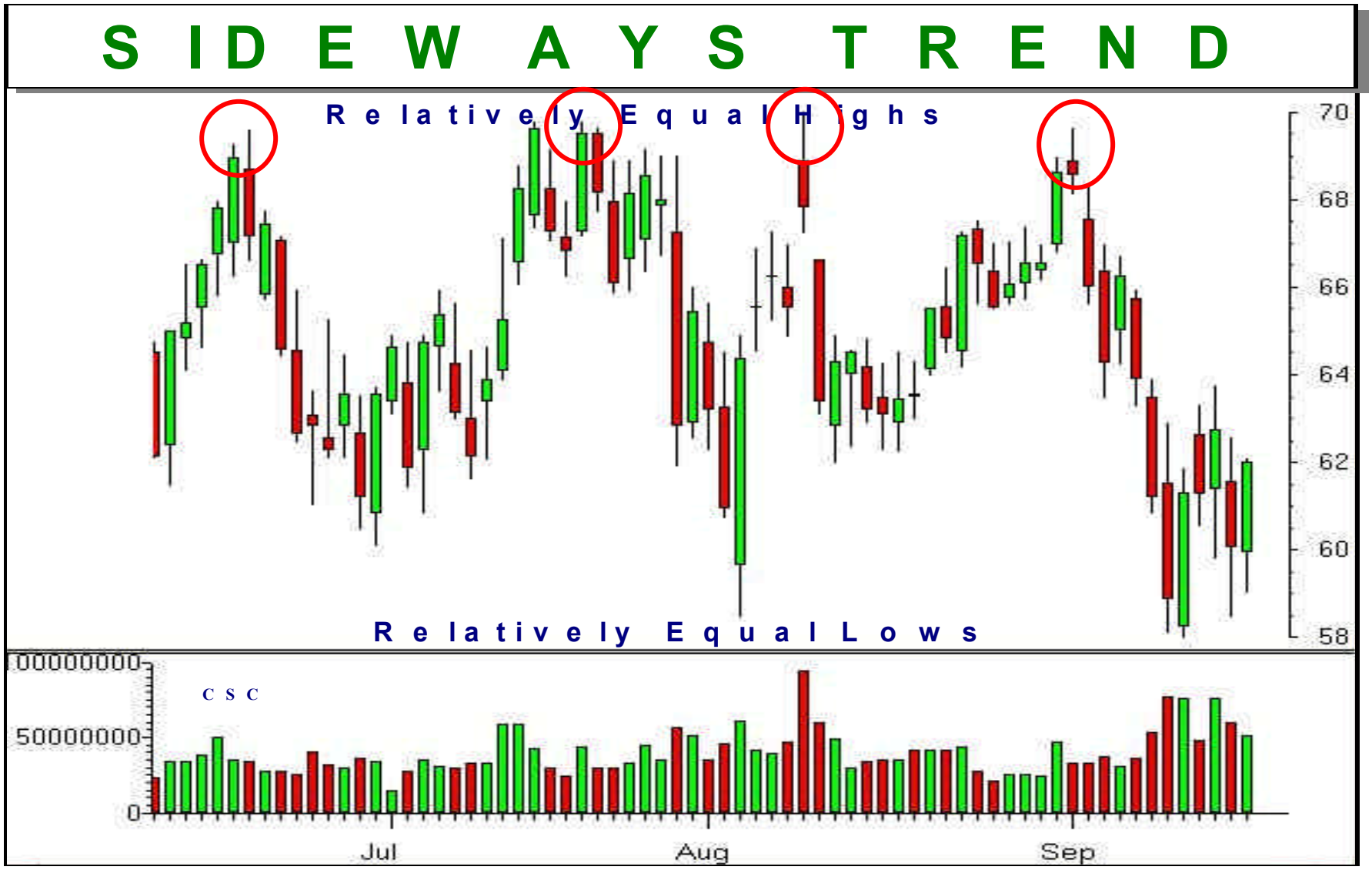
Sideways Trend (1)

S I D E W A Y S T R E N D

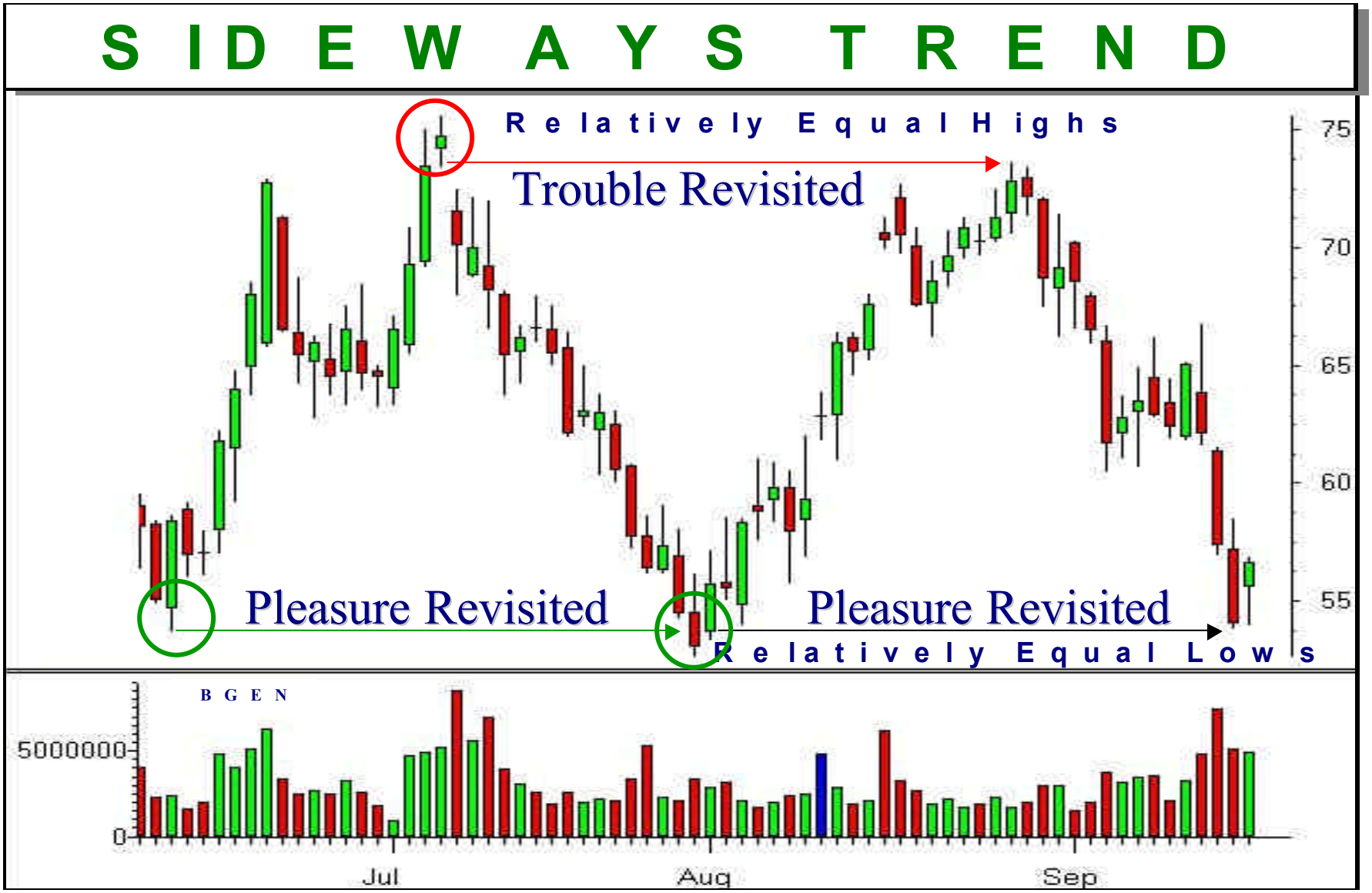


Sideways Trend (2)

Sideways Trend (3)

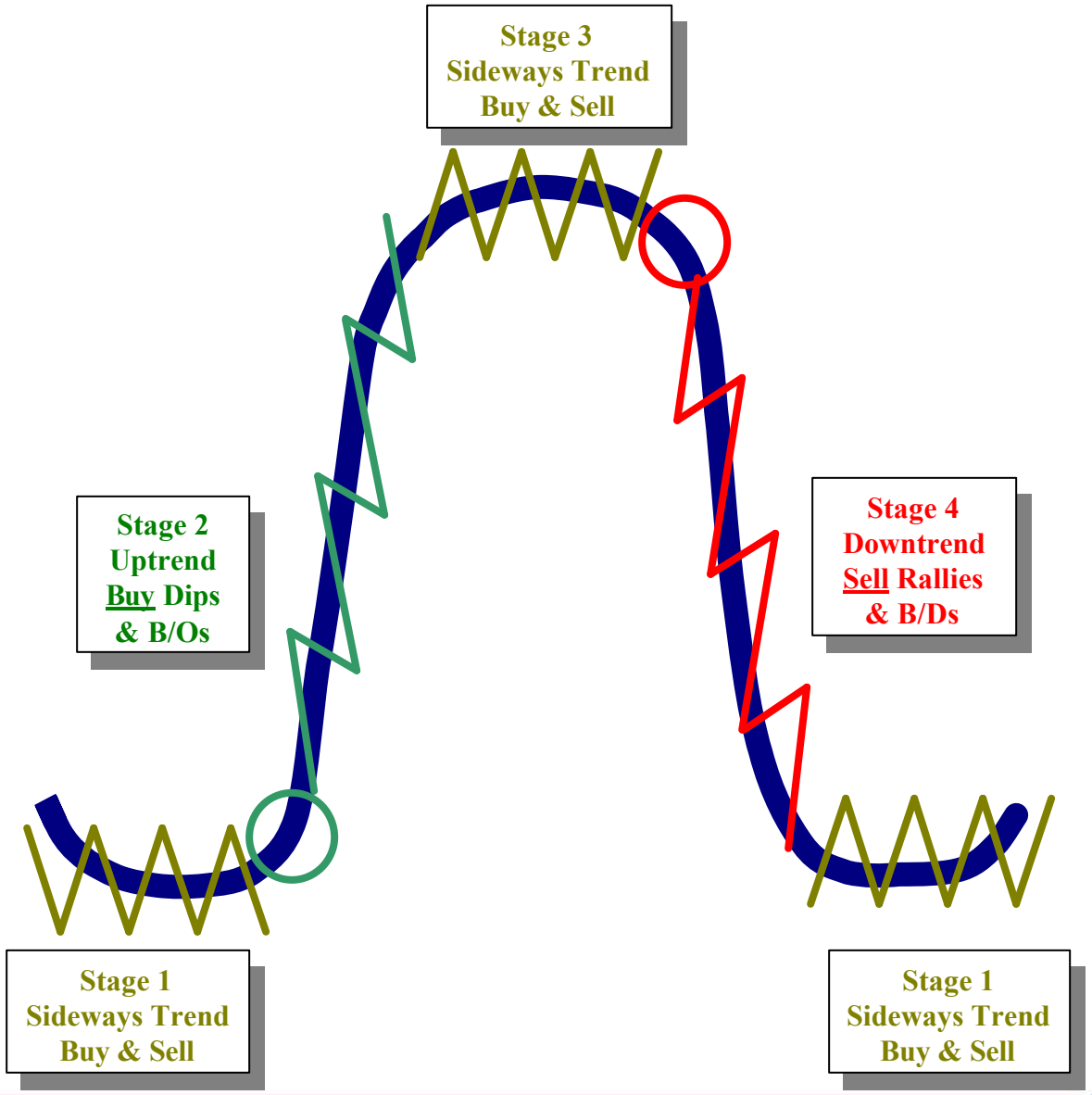


Sideways Trend (4)



Combining Building Blocks One and Two

- There is only one Cycle or movement a stock can make. We call this the Atom.
- This Cycle is made up of 4 stages (1, 2, 3 & 4).
- These 4 stages are made up of 3 primary trends (Up, Down & Sideways).
- Each trend should have its own matching trading actions.

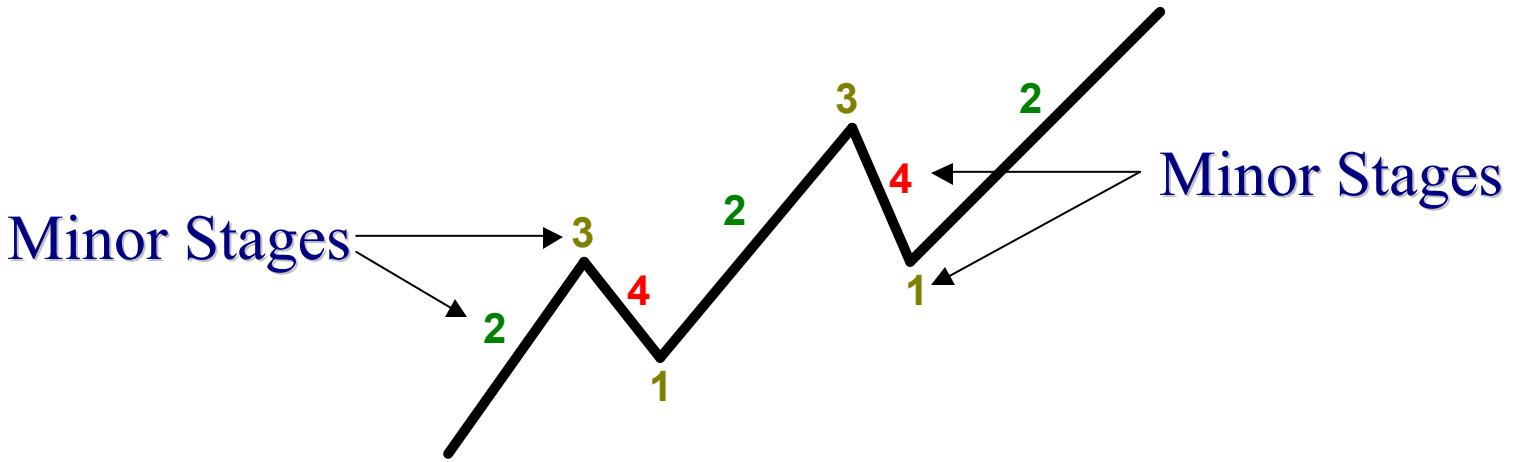


Part III

Anatomy of Up & Down Trends

The Anatomy of an Up trend – Stage 2

Minor Stage 1's = Bottoming Tails, COGs, NRBs and Novice Gaps



Major Bullish Stage 2

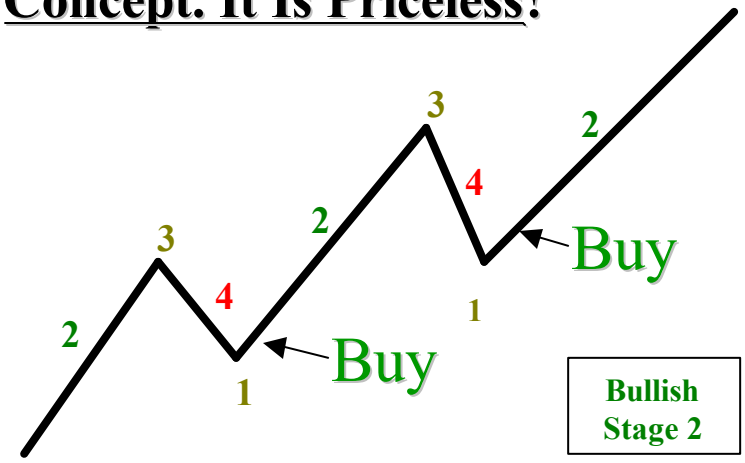
The Anatomy of an Up trend – Stage 2

Important Points

- Note that the up trend is nothing more than a series of repetitive Stock Cycles (Atoms).
- **Pristine traders can buy every dip and breakout in stage 2 up trends**. The question is not "**if**" to buy, but "**when**" to buy the dip (breakout).
- While the up trend signifies that the stock is in a **"Major" Stage 2**, note that the up trend itself has minor stage **1s**, **2s**, **3s** & **4s.**

Pristine Trading Tip:

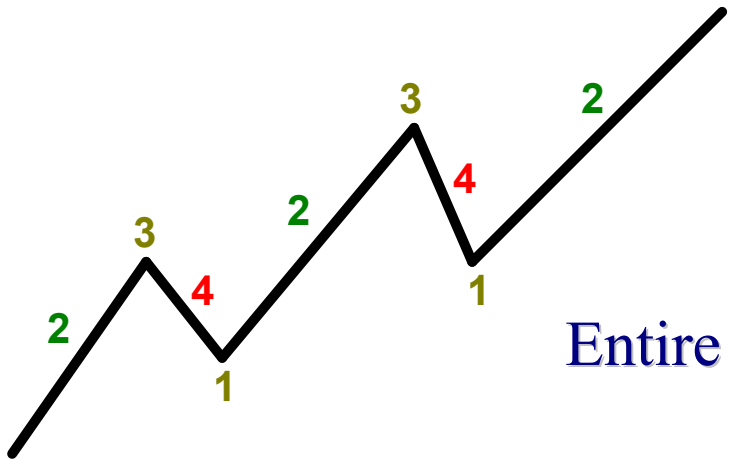
Pristine traders buy when the **Minor 2** matches the **Major 2.** Herein lies the master key to stock market accuracy on the buy side. The question of "**when**" to buy is now answered. A buy is triggered each time there is a stage to stage **"MATCH." Don't Miss This Concept. It Is Priceless!**



The Anatomy of an Up trend – Stage 2

The buy setup develops as follows:

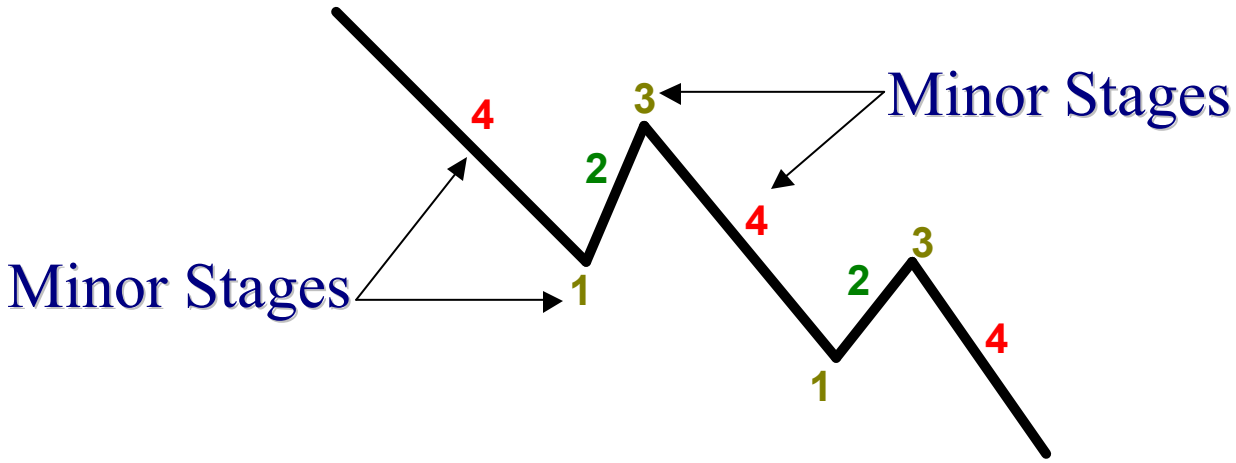
1) Major Stage 2 with a minor Stage 3 (Wait!)
2) Major Stage 2 with a minor Stage 4 (Wait!)
3) Major Stage 2 with a minor Stage 1 (Get Ready!)
4) Major Stage 2 with a minor Stage 2 (STRIKE!)



Entire uptrend is Major Stage 2

The Anatomy of a Downtrend – Stage 4

Minor Stage 3's = Topping Tails, COGs, NRBs and Novice Gaps



Major Bearish Stage 4

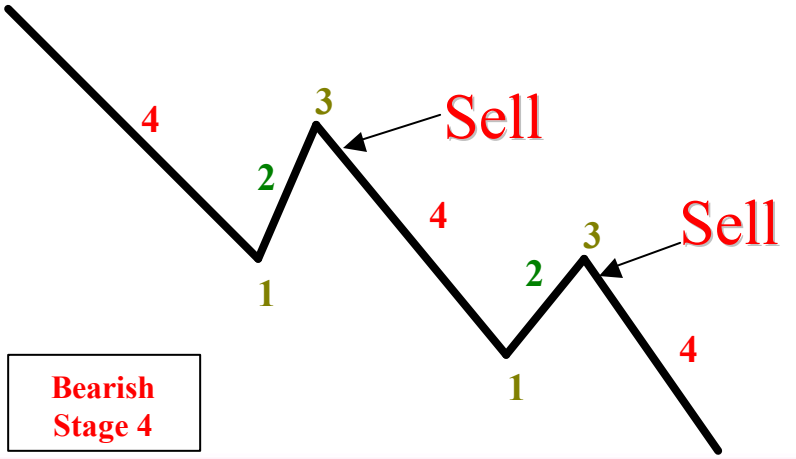
The Anatomy of a Downtrend – Stage 4

Important Points

- Note that the downtrend is nothing more than a series of repetitive Stock Cycles (Atoms).
- **Pristine traders can sell short every rally and breakdown in stage 4 down trends.** The question is not "**if**" to short, but "**when**" to short the rally (breakdown).
- While the downtrend signifies that the stock is in a **"Major" Stage 4**, note that the downtrend itself has minor stage **1s**, **2s**, **3s** & **4s**.

Pristine Trading Tip:

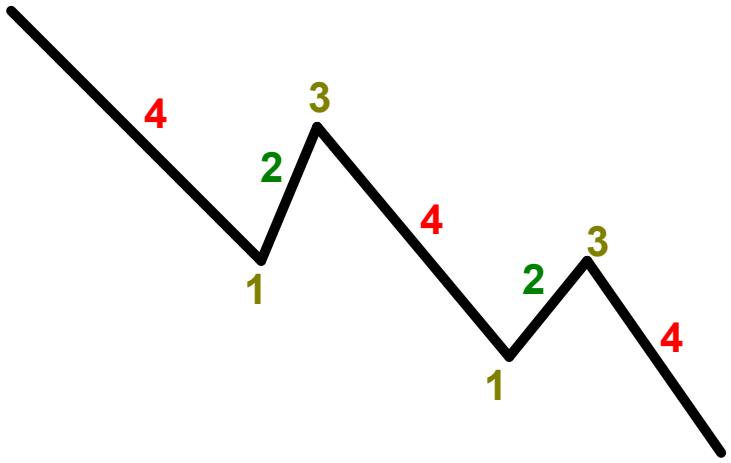
Pristine traders short when the **Minor 4** matches the **Major 4**. Herein lies the master key to stock market accuracy on the short side. The question of "**when**" to short is now answered. A short is triggered each time there is a stage to stage **"MATCH." Don't Miss This Concept. It Is Priceless!**



The Anatomy of a Downtrend – Stage 4

The short setup develops as follows:

1) Major Stage 4 with a minor Stage 1 (Wait!)
2) Major Stage 4 with a minor Stage 2 (Wait!)
3) Major Stage 4 with a minor Stage 3 (Get Ready!)
4) Major Stage 4 with a minor Stage 4 (STRIKE!)



Entire trend is Major stage 4

Part IV

Pristine's Master Buy and Sell Set-ups

Pristine's Buy Setup

- The Key Buy Setup is made up of only a few basic criteria.
- This setup is the key to capturing big 1- to 5-bar trading gains on the upside.
- The trader can often use this one setup alone to buy without any other guide.

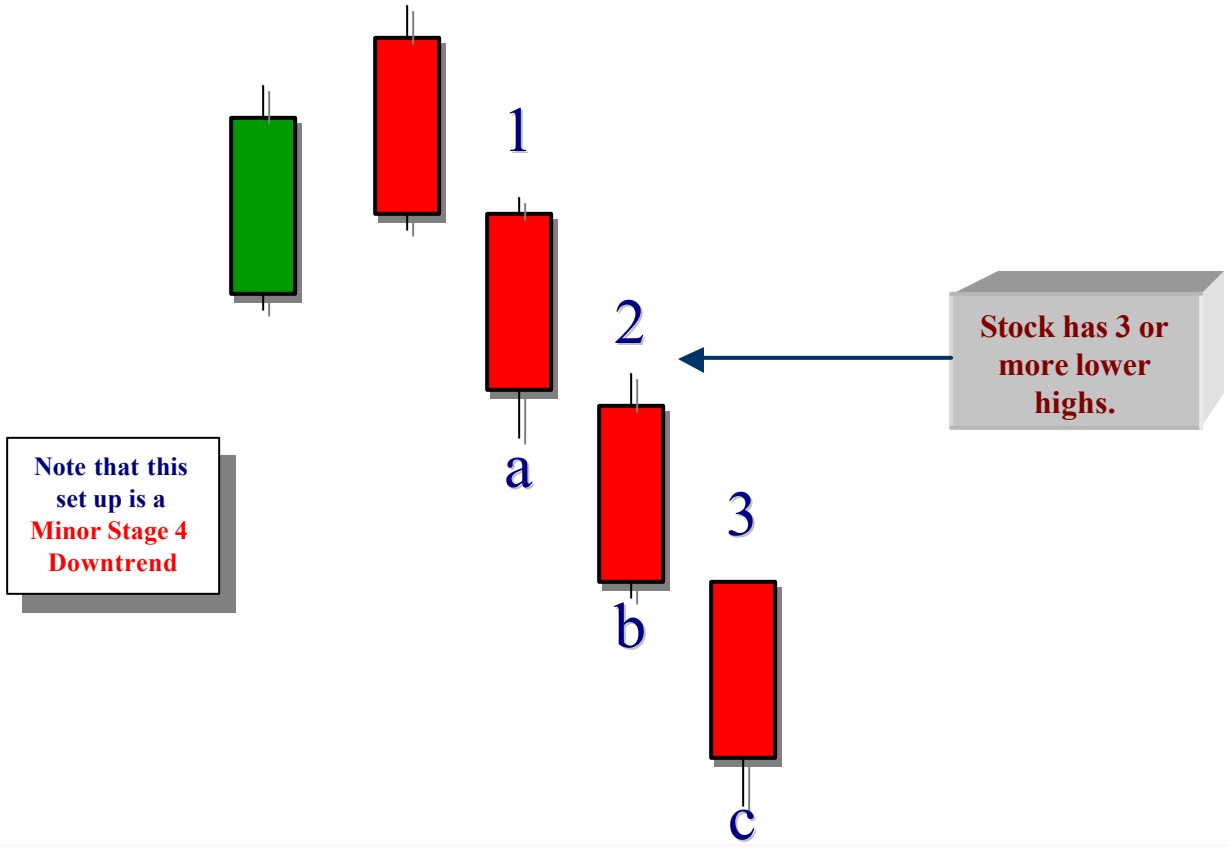
Pristine's Key Buy Setup (PBS)

1st Criteria 3 or more consecutive lower highs (major emphasis on the highs).

2nd Criteria 3 or more consecutive lower lows

3rd Criteria 3 or more consecutive dark (red) bars.

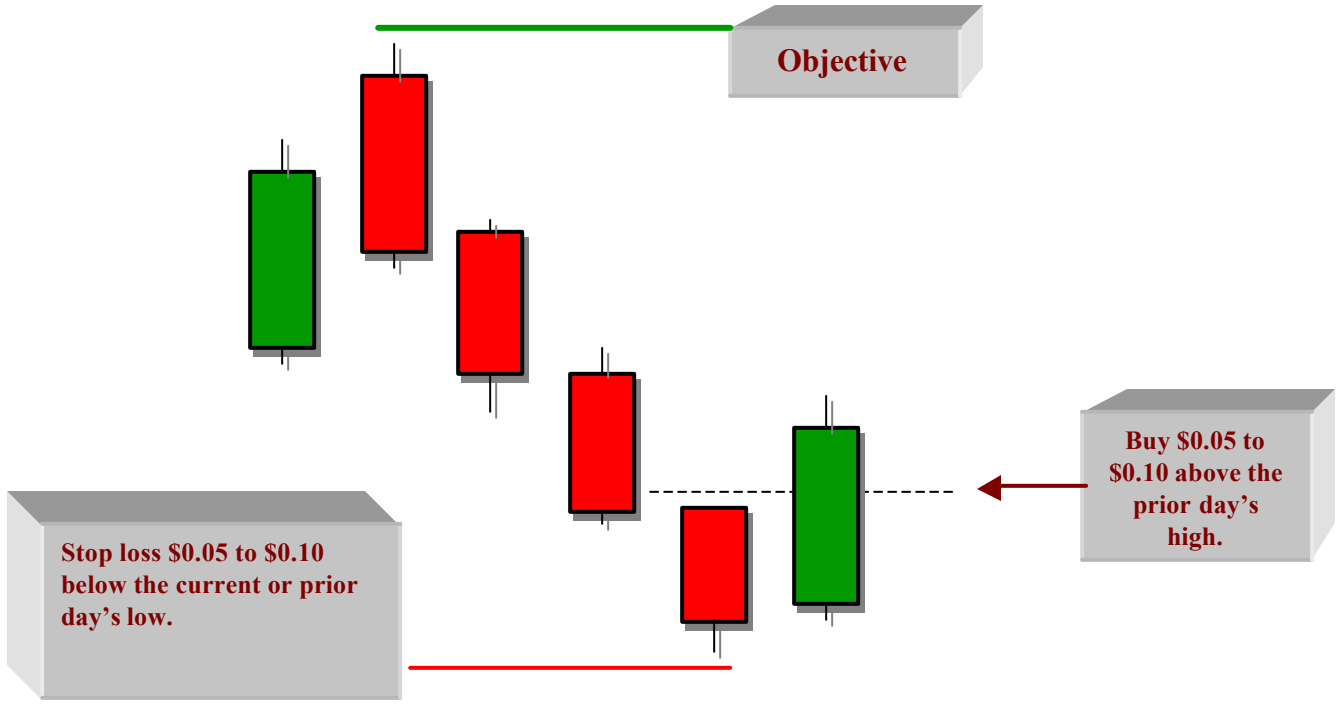
Note: At times, it is acceptable for the close to be above the open on the last day.



Pristine's Buy Action

1) **Buy** when the stock trades above the prior day's high, ***or***
2) **Buy** when the stock trades above its first 30-minute high.

   Note: Only use Buy Action 2 if the prior day's high is too far away.
3) Place a stop $0.05 to $0.10 below the entry day's low, *or* the prior day's low, ***whichever is lower***.
4) Use a trailing stop under each prior low **after two complete bars** until **a)** the price objective is met, **b)** a reversal bar has developed or **c)** a gap up has occurred.



CHASE MANHATTAN (CMB)

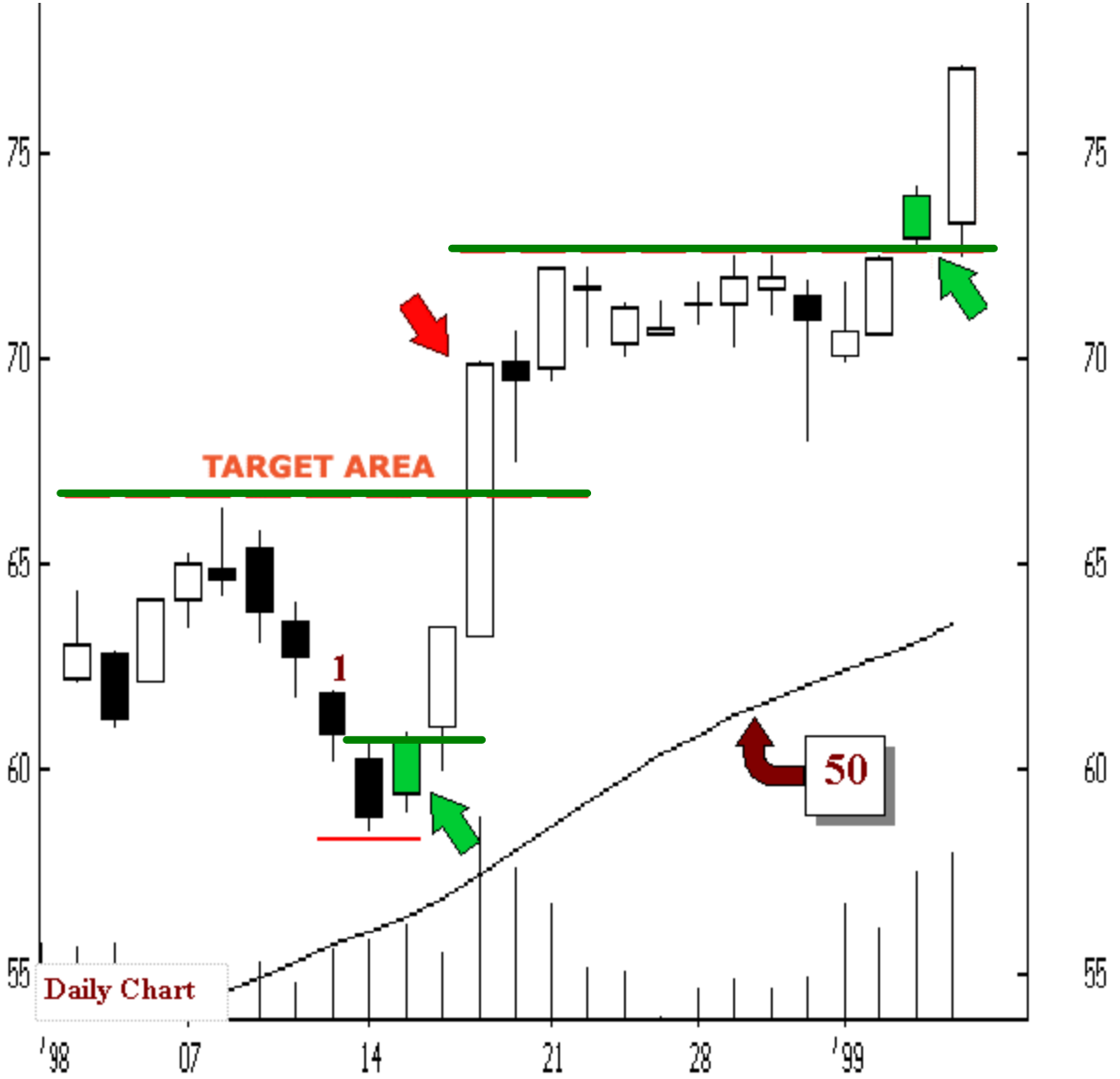
This chart of CMB shows a perfect Pristine Key **Buy** Set-up. The **Green Arrow** points to the buy bar. The **Red Line** signifies where the Pristine Trader places his stop.

Pristine's Key Buy Set-up

1) 3 Consecutive lower highs and lower lows (**number 1**).

2) Close on each day is below the open price. Exceptions can

be made either on the third day or when the pattern is perfect.



CHASE MANHATTAN (CMB)

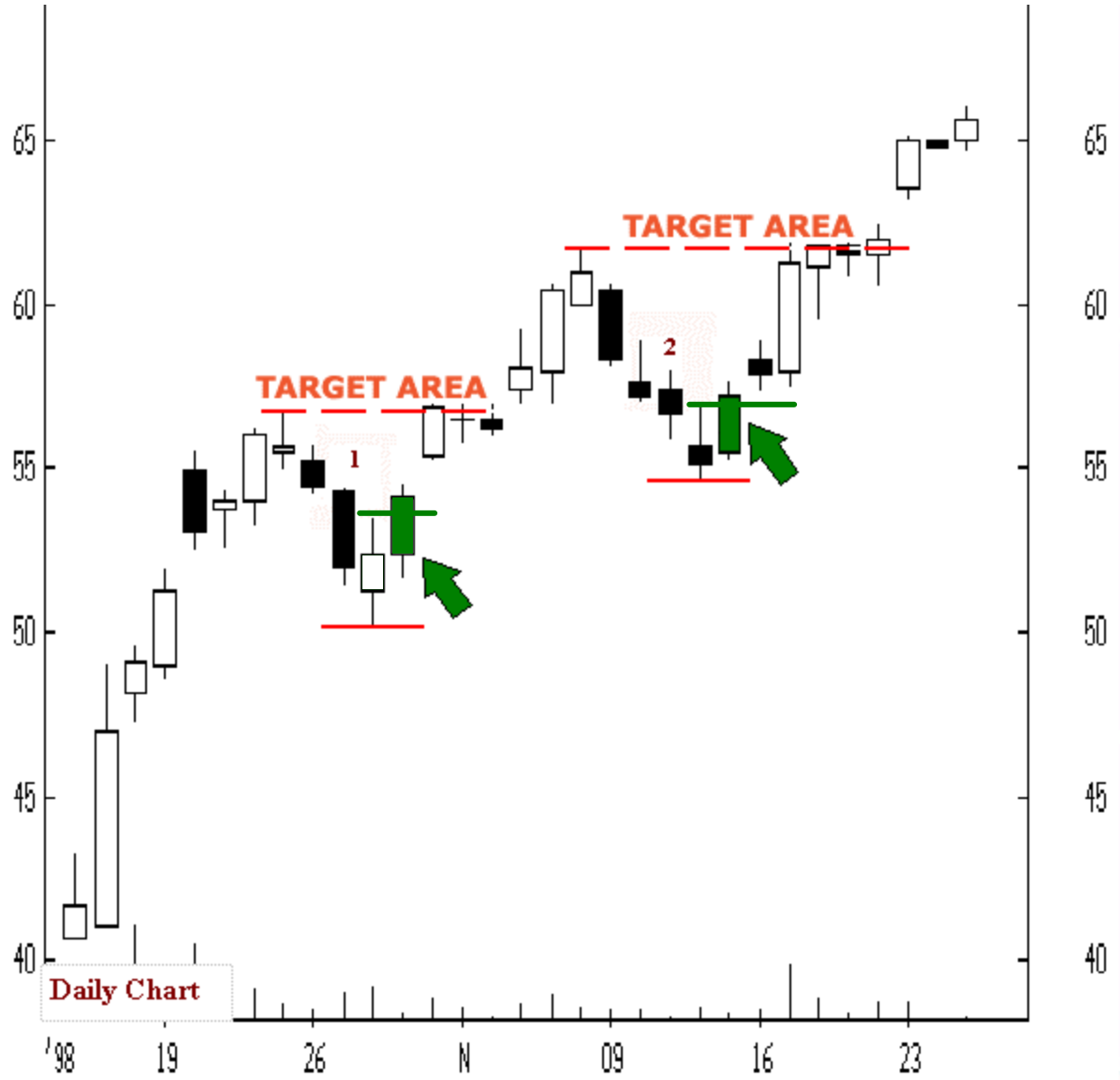
The chart of CMB shows two perfect Pristine Key **Buy** Set-ups. The **Green Arrows** point to the **buy** bars.

The **Red Lines** signify where the Pristine Trader places his **stops**.

Pristine's Key Buy Set-up

1) 3 Consecutive lower highs and lower lows (number **1 & 2**).

2) Close on each day is below the open price. Exceptions can be made on the third day or when the pattern is perfect.



Pristine Buy Example (1)

Swing Trading Chart

Pristine's Key Short Setup (PSS)

- The Key Short Setup is made up of only a few basic criteria.
- This setup is the key to capturing big 2- to 5-day trading gains on the downside.
- The trader can often use this one setup alone to short without any other guide to trade the markets.

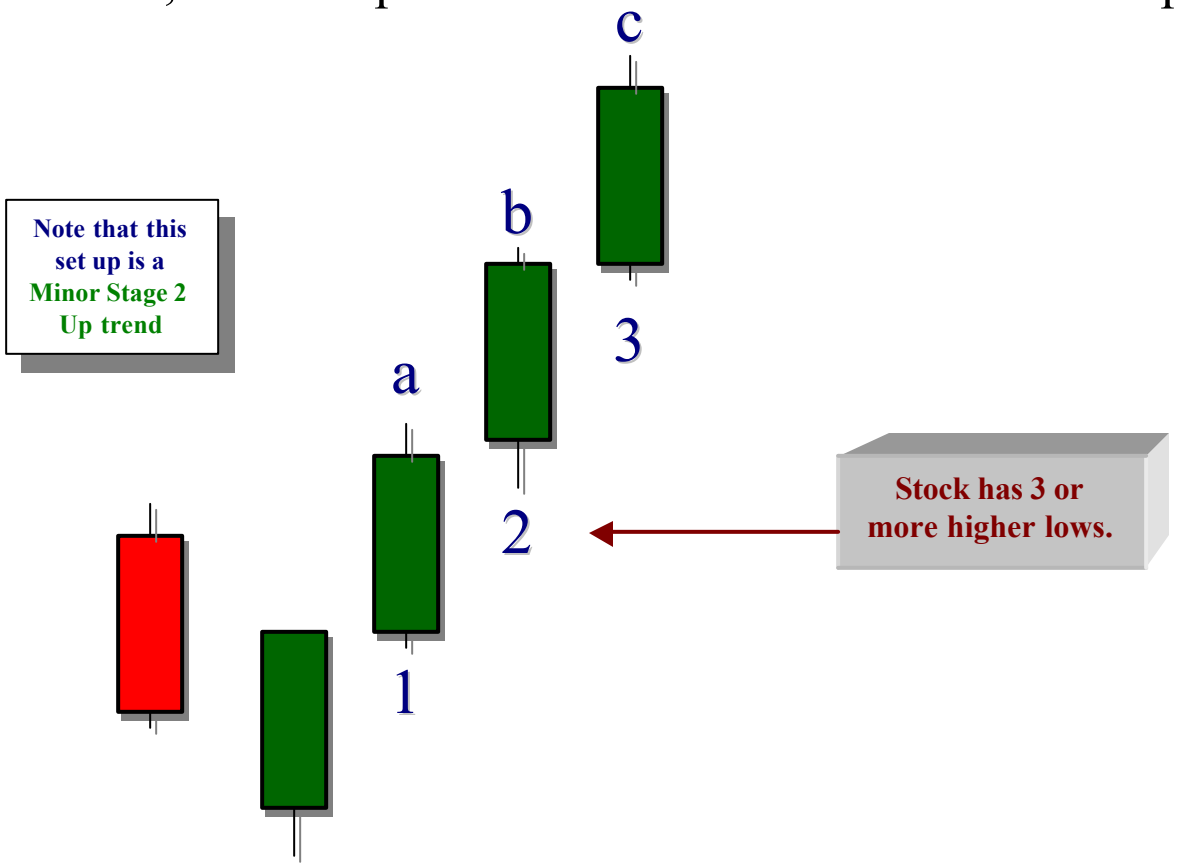
Pristine's Key Short Setup (PSS)

1st Criteria 3 or more consecutive higher lows. (major emphasis on the lows).

2nd Criteria 3 or more consecutive higher highs.

3rd Criteria 3 or more consecutive light (green) bars.

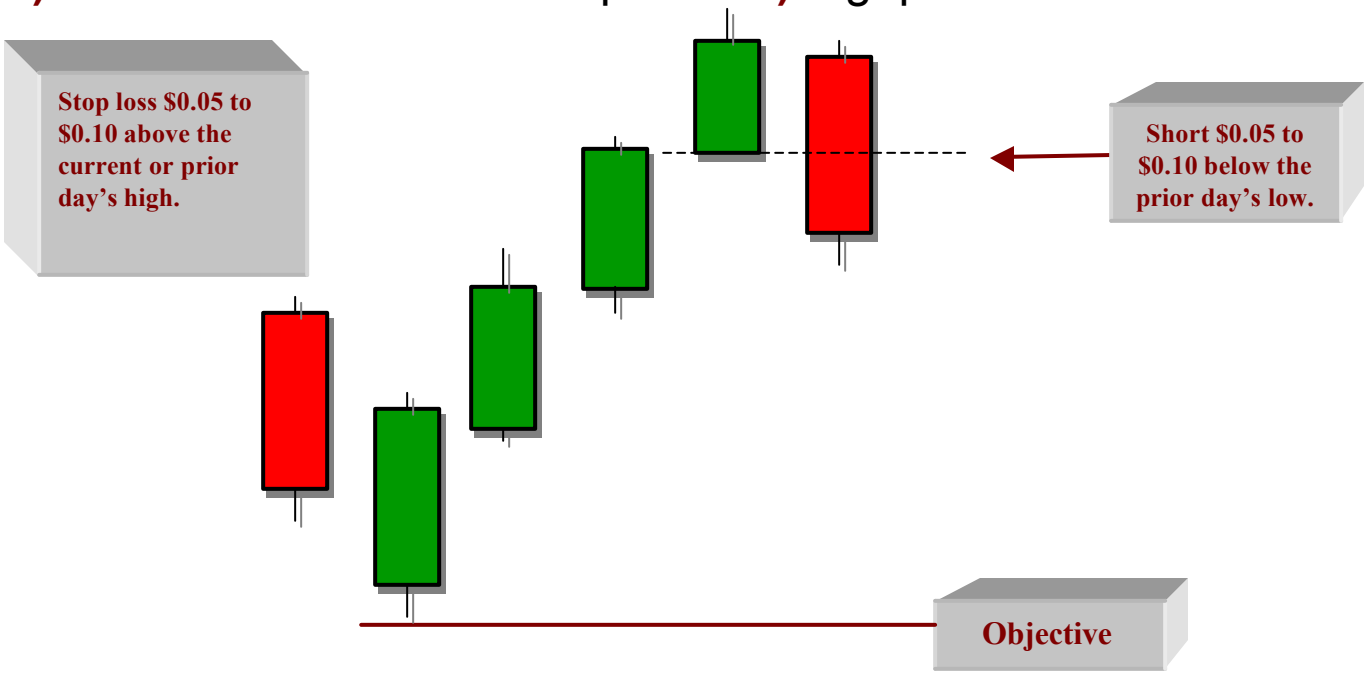
Note: At times, it is acceptable for the close to be below the open on the last day.



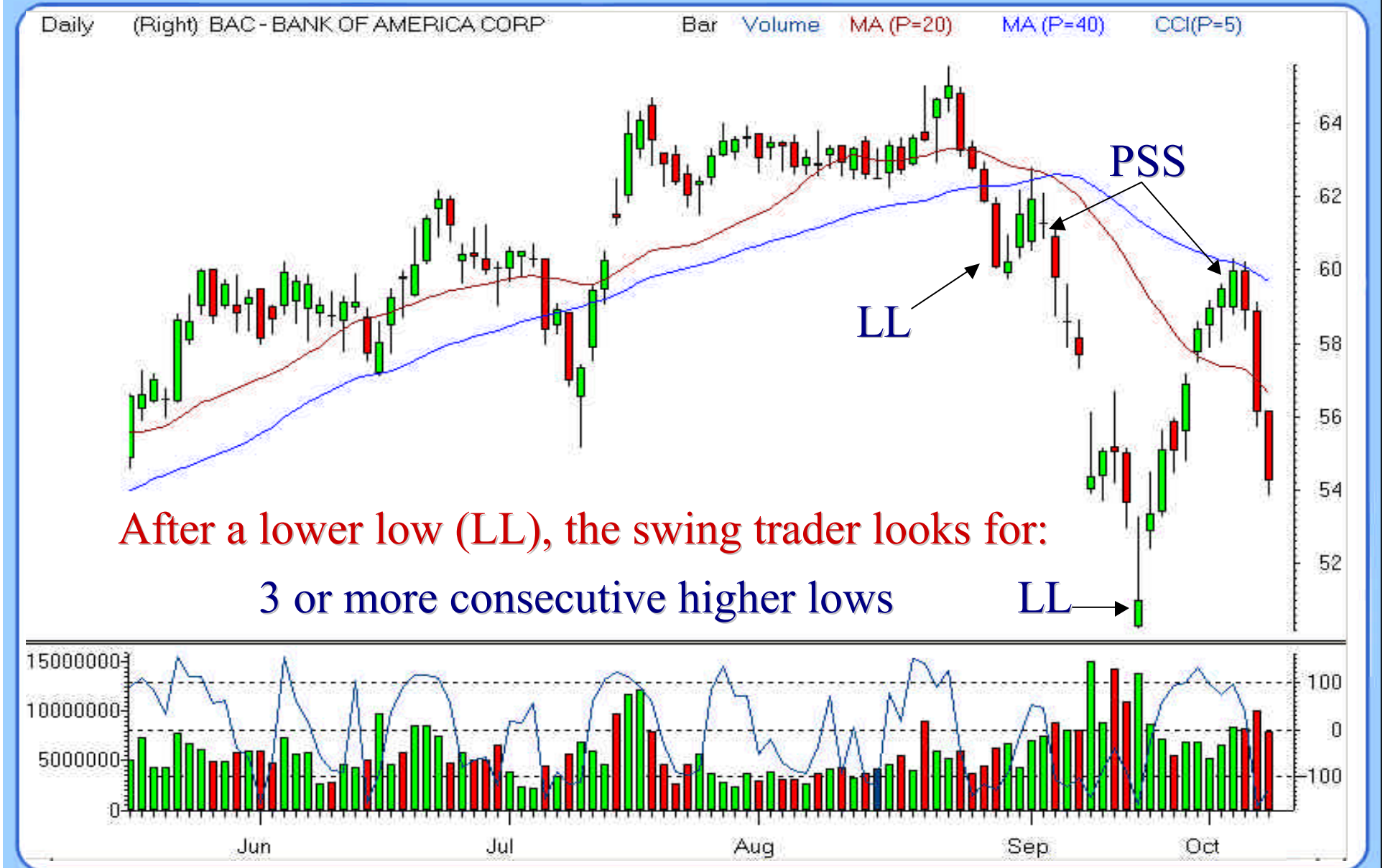
Pristine's Short Action

1) **Short** when the stock trades below the prior day's low, ***or***
2) **Short** when the stock trades below its first 30-minute low.

   Note: Only use Short Action 2 if the prior day's low is too far away.
3) Place a stop $0.05 to $0.10 above the entry day's high, *or* the prior day's high, ***whichever is higher***. Traders with a very low threshold for pain should use the entry day's high.
4) Use a trailing stop above each prior day's high until **a)** the price objective is met, **b)** a reversal bar has developed or **c)** a gap down has occurred.



Pristine Sell Set-up (PSS)



After a lower low (LL), the swing trader looks for:

3 or more consecutive higher lows

Pristine Sell Set-up (PSS)

Pristine Sell Set-up (PSS)